

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2002 AND 2001

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

(A COMPONENT UNIT OF THE CITY OF FRESNO)
FRESNO, CALIFORNIA

CITY OF FRESNO Employees Retirement System

(A COMPONENT UNIT OF THE CITY OF FRESNO)

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MISSION STATEMENT

The **Employees Retirement System** (the "System") was established on June 1, 1939 and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. The System provides benefits to the employees and retirees of the City of Fresno.

The System's primary responsibilities include: Administration of the trust fund, delivery of retirement, disability and death benefits to eligible members, administration of programs, and general assistance in retirement and related benefits.

Mission Statement

To provide System members and the employer with flexible, costeffective, participant-oriented benefits through prudent investment management and superior member services.

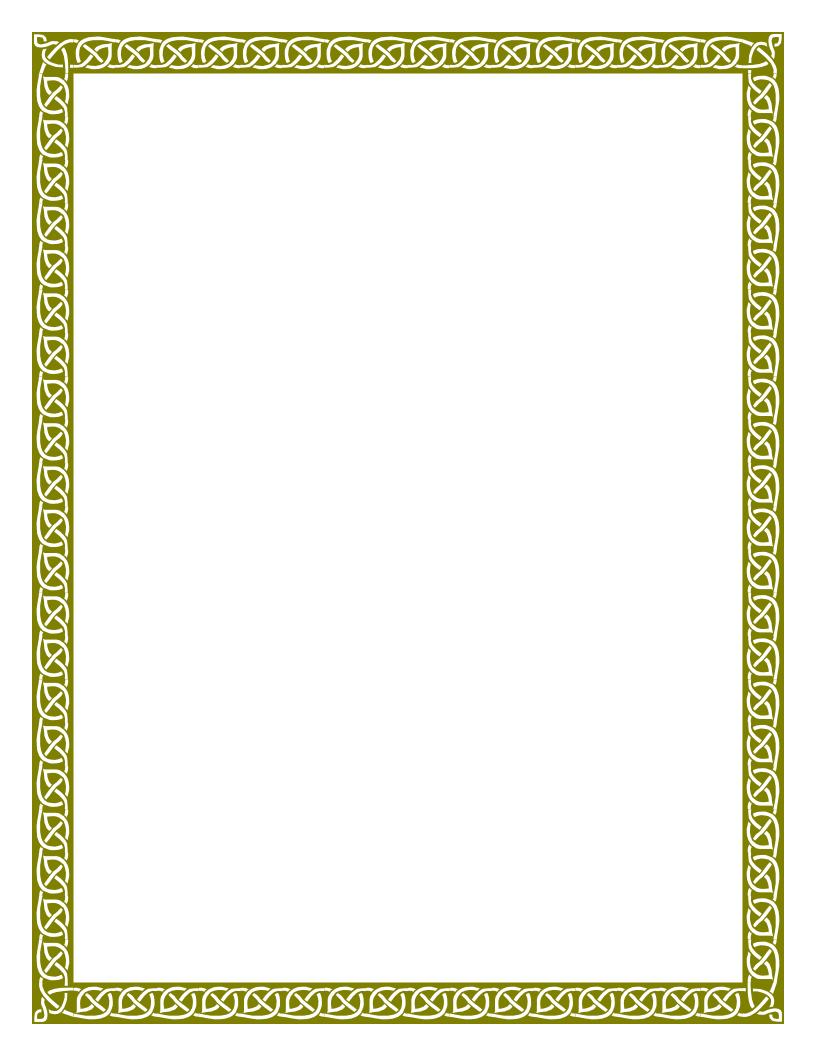
Board and Staff Commitment

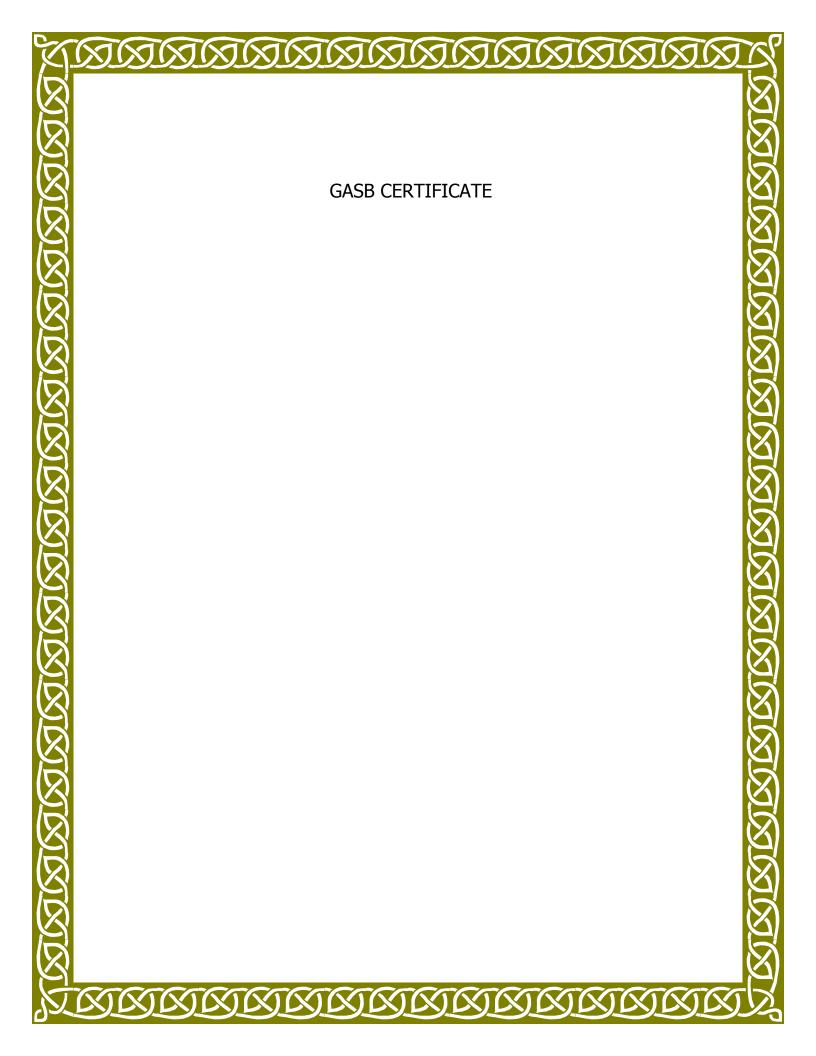
To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

Goals

- To create an environment in which Board Members can maximize their performance as trustees.
- To improve the level of benefits and delivery of services provided to members and employees.
- To improve communications with members and the employer.
- X To attract, develop and retain competent and professional staff.
- To achieve and maintain top quartile investment performance as measured by the Public Fund Universe.

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CITY OF FRESNO EMPLOYEES BOARD

WILLIAM F. QUICK, CHAIR
CARLA LOMBARDI, VICE CHAIR
FRANK H. BALEKIAN, JR.
DARRELL FIFIELD
MARVELL FRENCH

RETIREMENT ADMINISTRATOR

STANLEY L. MCDIVITT

April 8, 2003

Retirement Board Members City of Fresno Employees Retirement System 2600 Fresno Street, Suite 2162 Fresno, California 93721

Dear Board Members:

As Retirement Administrator of the Employees Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2002 and 2001.

The Board successfully managed the investment portfolio through last year's continued contraction in the stock market. Like all institutional investors, the System's returns were down in fiscal year 2002, however, seven year annualized returns still averaged 9.7 percent. The Employees System remains strong, well funded and well positioned to serve our members. The Board continues to demonstrate its commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the System.

The Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Employees Retirement System for the years ended June 30, 2002 and 2001, is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Employee System's finances, please refer to Management's Discussion and Analysis letter in the Financial Section of this report.

The CAFR consists of six sections:

The **Introductory Section** contains our Mission Statement, the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting, a Letter of Transmittal, a description of the System's management and organizational structure, and a listing of the professional services providers.

The **Financial Section** contains the opinion of the independent auditor, Brown Armstrong Accountancy Corporation, Management's Discussion and Analysis Letter and the general purpose financial statements of the System.

2600 Fresno St., Room 2162 + Fresno, CA 93721-3619 + (559) 621-7080 + FAX (559) 621-7081

The **Investment Section** includes a letter from the System's Investment Consultant, Dorn, Helliesen & Cottle, recapping the fiscal year investment results and activities, along with performance and asset allocation information.

The **Actuarial Section** includes the certification letter produced by the independent actuary, William M. Mercer, Inc., along with supporting schedules and information.

The **Statistical Section** contains significant detailed data pertaining to the System.

The **Compliance Section** contains the Independent Auditor's Report on Compliance and Internal Control over Financial Reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.

I trust that you and the members of the System will find this CAFR helpful in understanding the System, and our commitment to financial integrity and member services.

THE EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

The Employees Retirement System was established on June 1, 1939, under Charter Section 910 and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. The System provides retirement allowances and other benefits to the non-safety members employed by the City of Fresno. The System also provides lifetime retirement, disability, and death benefits to its members. The Retirement Board is responsible for the prudent investment of member and employer contributions, and defraying reasonable expenses of administration.

The Employees Retirement Board is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 18 of Chapter 2 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that "the members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has ... "the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the members representing the manual workers of the System, and one (1) employee who is elected by the members representing the clerical or supervisory workers of the System, both of which serve a four-year term. The fifth and final member of the Board is a qualified elector of the City, not connected with its government, elected by the previously designated four members.

The Board oversees the Retirement Administrator and staff in the performance of their duties in accordance with the Municipal Code and the Boards' Rules, Regulations and Policies.

Service Efforts and Accomplishments

In fiscal year 2002, with the support of City management, the Board implemented a reciprocity program with the California Public Employees Retirement System ("CALPERS").

During the fiscal year, the Board also performed several portfolio manager searches. The searches resulted in the hiring of Pryford as an international equity manager and the indexing of two other portfolios with Barclays Global Investors. The Investment Committee also updated the Board's Investment Objectives and Policy Statement and the Board's Asset Allocation Plan.

The Board recently completed a request for proposal process to retain an independent auditor to audit the financial records and adopted a new Code of Ethics for Board Members and Staff.

Professional Services

Professional Consultants and Investment Managers are retained by the Board to provide professional services essential to the effective and efficient operation of the System.

An opinion from the certified public accountant and the actuary are included in this report along with a summary investment report from the Board's Investment Consultant. The Consultants and Investment Managers retained by the Board are listed in the following section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Actuarial Funding Status

The System's funding objective is to meet long-term benefit promises by retaining a well-funded plan status and obtaining superior investment returns while minimizing employer contributions. The Boards' objective for employer contributions is to establish a rate as a level percent of member payroll. The greater the level of overall plan funding, the larger the ratio of assets accumulated compared to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers.

As of June 30, 2001, the funded ratio of the Employees Retirement System was 156.2 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement 25. The actuarial accrued liability of the System at June 30, 2001 amounted to \$500,586,000. The actuarial value of assets at June 30, 2001 amounted to \$781,830,729. The market value of the assets at June 30, 2001 amounted to \$788,164,615.

The Board engages an independent actuarial consulting firm, William M. Mercer, Incorporated, to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration.

Accounting System and Reports

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that the System assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with the management of the System. The accounting firm of Brown Armstrong Accountancy Corporation, provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans, and incorporates the provisions of GASB No. 34.

The System's transactions are reported on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

INVESTMENTS

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "the members of the Retirement Board of a public pension or retirement system shall discharge their duties ... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim." By permitting further diversification of investments within a fund, the prudent expert rule may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found in the Investment Section of this report.

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel, and allows for delegation of investment authority to professional investment advisors. The Investment Objectives and Policy Statement of the Board outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the policy in accordance with the Board policy and guidelines.

For the fiscal year ended June 30, 2002 and June 30, 2001, the System's investments provided a -5.8 percent and -4.1 percent rate of return, respectively. The System's annualized rate of return over the last three years was .2 percent; for the past five years the annualized return was 6.4 percent and for the past seven years, the annualized return was a strong 9.7 percent.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the System.

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley, Carol Eland, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, Patricia Basquez; and to the Boards' consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt Retirement Administrator



Carla Lombardi *Mayor Appointed*



William Quick, Chair Elected Member 4-year term

City of Fresno Employees Retirement Board



Darrell Fifield *Mayor Appointed*



Frank H. Balekian Jr.
Elected Member
Clerical & Supervisory
4-year term



Marvell French Board Appointed



CITY OF FRESNO RETIREMENT OFFICE STAFF



Karen Rolle, Accountant-Auditor; Stanley McDivitt, Retirement Administrator, Pattie Laygo, Executive Secretary

Andrea Ketch, Benefits Counselor; Donna Gaab, Benefits Counselor; Patricia Basquez, Benefits Counselor

BACK ROW

Kathleen Riley, Assistant Retirement Administrator; Carol Eland, Benefits Manager



ORGANIZATION OF EMPLOYEES RETIREMENT SYSTEM

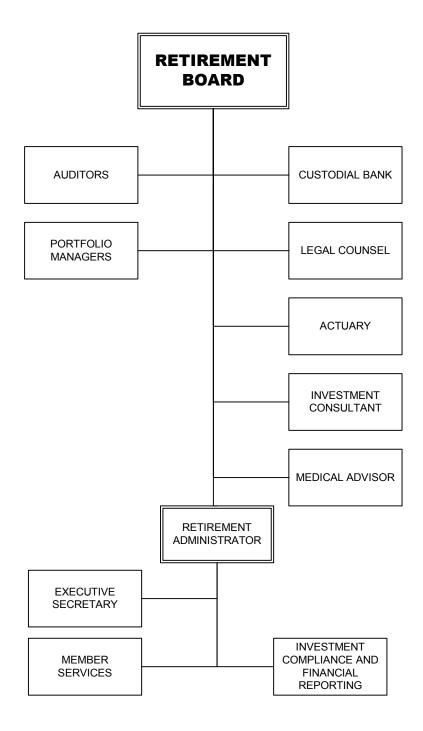
ADMINISTRATION: The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xiii for outside consultants and page xiv for investment managers and page 38 for a schedule of brokerage commissions.)

MEMBER SERVICES: This section is responsible for providing all benefit services to the members for the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling, and membership training.

INVESTMENT COMPLIANCE AND FINANCIAL REPORTING: This section is responsible for monitoring compliance with the Board's Investment Objectives and Policy Statement and for all of the financial records and reports including financial statements, control and balancing of payroll and members' contributions and reconciliation of investments.

EXECUTIVE SECRETARY: The position is responsible for providing administrative and clerical support services for the Board and the retirement staff.

EMPLOYEES RETIREMENT SYSTEM ADMINISTRATIVE ORGANIZATION STRUCTURE



PROFESSIONAL SERVICES

Custodial Bank

STATE STREET BANK Alameda, California

LEGAL ADVISOR

SALTZMAN AND JOHNSON LAW CORPORATION San Francisco, California

INVESTMENT CONSULTANT

MILLIMAN USA (formerly Dorn, Hellisen & Cottle) San Francisco, California

ACTUARY

MERCER HUMAN RESOURCES CONSULTING (formerly William M. Mercer Inc.) San Francisco, California

MEDICAL ADVISOR

BENCHMARK MEDICAL CONSULTANTS Sacramento, California

PORTFOLIO MANAGERS

ALLIANCE CAPITAL MANAGEMENT CORP NEW YORK, NY LARGE CAPITAL – DOMESTIC

> BARCLAYS GLOBAL INVESTORS NEW YORK, NY LARGE CAPITAL — DOMESTIC

> CAPITAL GUARDIAN TRUST CO. LOS ANGELES, CA DOMESTIC FIXED INCOME

CREDIT SUISSE ASSET MANAGEMENT NEW YORK, NY ENHANCED DOMESTIC FIXED INCOME

DEUTSCHE ASSET MANAGEMENT INVESTMENT SERVICES LTD.
PHILADELPHIA, PA
DOMESTIC FIXED INCOME

DUNCAN HURST CAPITAL MANAGEMENT SAN DIEGO, CALIFORNIA SMALL CAP – DOMESTIC EQUITY

GENESIS INVESTMENT MANAGEMENT LTD. LONDON, UNITED KINGDOM EMERGING MARKET EQUITY

INVESCO GLOBAL ASSET MANAGEMENT
ATLANTA, GEORGIA
INTERNATIONAL EQUITY
NEW YORK, NY
ENHANCED INDEX DOMESTIC EQUITY INDEX

JP MORGAN FLEMING ASSET MGT
NEW YORK, NY
RESEARCH ENHANCED INDEX
ACTIVE FIXED INCOME
OPEN-ENDED REAL ESTATE FUND
LONG DURATION FIXED INCOME

JOHN MCSTAY INVESTMENT COUNSEL
DALLAS, TEXAS
SMALL CAP—DOMESTIC EQUITY

PYRFORD INTERNATIONAL LONDON, ENGLAND INTERNATIONAL EQUITY





Brown Armstrong Paulden McCown Hill Starbuck & Keeter

CERTIFIED PUBLIC ACCOUNTANTS

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Shafter Office 560 Central Avenue Shafter, California 9263 Tel 661746-2145 Fax 661746-1218

Peter C. Brown, CPA Burton H. Armstrong, CPA, MST

Andrew J. Paulden, CPA

Harvey J. McCown, CPA

Andrea R. Hill, CPA

Steven R. Starbuck, CPA

Aileen K. Keeter, CPA

To the Board of Retirement

City of Fresno Employees' Retirement System

Fresno, California

Chris M. Thomburgh, CPA Lynn R. Krausse, CPA, MST Joan M. Anderson, CPA Bradley M. Hankins, CPA Eric H. Xin, CPA

Melinda A. McDaniels, CPA

Thomas M. Young, CPA

Amanda E. Wilson, CPA

Sharon Jones, CPA, MST

Michelle L. Gonzales, CPA

Rebecca Thomas, CPA

Wendy Yuan-Sway, CPA

Rosalva Flores, CPA

Bryan J. Lewis, CPA

Debbie A. Rapp, CPA

Julie A. Auvil, CPA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Employees' Retirement System as of June 30, 2002 and 2001, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Employees' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Fresno Employees' Retirement System, as of June 30, 2002 and 2001, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified as management's discussion and analysis in the financial section of the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules and the supporting schedules listed in the financial section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

MEMBER of SEC Practice Section of the American Institute of Certified Public Accountants



The information included in the Investment, Actuarial, and Statistical Sections listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on these sections.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2002, on our consideration of the City of Fresno Employees' Retirement System internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN McCOWN HILL STARBUCK & KEETER ACCOUNTANCY CORPORATION

Bakersfield, California August 30, 2002



MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Employees Retirement System for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page iv of this report.

FINANCIAL HIGHLIGHTS

- ♦ At the close of the fiscal year 2002, the assets of the System exceed its liabilities by \$714,539,735. The net assets of the System are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the System's ongoing obligations.
- ♦ The System's total net assets held in trust for pension benefits decreased by \$73,624,879 or 9.3 percent, primarily as result of declines in the investment markets.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of the last actuarial valuation, the funded ratio for the System was 156 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.56 of assets available for payment as of that date.
- ♦ Revenues (additions (decreases) to Plan Net Assets) for the fiscal year were (\$43,975,402), which includes member contributions of \$4,192,384 and an investment loss of \$48,167,786.
- ♦ Expenses (Deductions in Plan Net Assets) increased from \$25,416,803 to \$29,649,477 over the prior year, or approximately 16.7 percent. The majority of the increase was due to an increase in benefits paid over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENT

The following discussion and analysis are intended to serve as an introduction to the System's financial statements, which are comprised of these components:

- 1. Statement of Plan Net Assets Available for Benefits
- 2. Statement of Changes in Plan Net Assets Available for Benefits
- 3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.



The **Statement of Plan Net Assets Available for Benefits** is a point in time or a snapshot of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities.

The **Statement of Changes in Plan Net Assets Available for Benefits**, on the other hand, provides a view of current year additions and deductions to the System. Both statements are in compliance with Governmental Accounting Standard Board (GASB) Pronouncements. These pronouncements require certain disclosures and require State and Local governments to move to the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The System's funding at June 30, 2001, ratio is 156.2 percent, which means the System's fund has approximately \$1.562 available for each \$1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the System's net assets held in trust for pension benefits (net assets), which is the difference between assets and liabilities. This is generally considered to be a good way to measure the System's financial position. Over time, increases and decreases in System's net assets is one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the System's overall health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension benefits to members.

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2002 by \$714,539,735. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits increased consistently from fiscal year 1995 to 2000 but has incurred losses over the past two fiscal years. The System averaged an annualized investment return of 9.7 percent over the past seven years and has exceeded the actuarial assumptions of 8 ¼ percent. In fiscal year 2002, net assets decreased by 9.34 percent due to a significant correction in the investment markets.

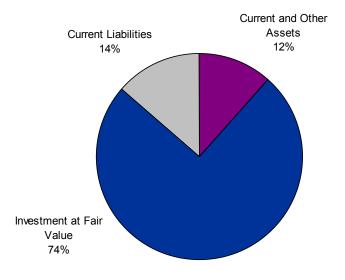
Despite variations in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and successful investment and risk management program.

Employees Retirement System Net Asset (Table 1) For the year ended June 30, 2002 and 2001

Current and Other Assets Investment at Fair Value Total Assets

Less: Current Liabilities Net Assets

		Increase/	Increase/
2002	2001	(Decrease)	(Decrease)
\$ 115,017,682	\$ 114,089,926	\$ 927,756	0.81
732,281,750	797,347,629	(65,065,879)	(8.16)
847,299,432	911,437,555	(64,138,123)	(7.04)
132,759,697	123,272,941	9,486,756	7.70
\$714,539,735	\$ 788,164,614	\$ (73,624,879)	(9.34)



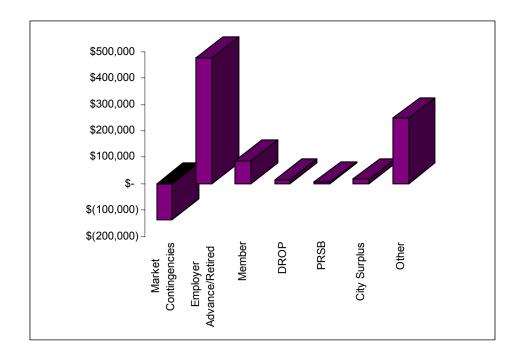


Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. The System previously implemented GASB 25, which impacted the reserve accounts, and the amount of interest credited to reserve accounts. Under GASB 25, investments are stated at fair value instead of at cost and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are held in a reserve account called the Market Stabilization Reserve.

Employees System's Reserves (Table 2) For the year ended June 30, 2002 and 2001 (in thousands)

	<u>2002</u>	<u>2001</u>
Member Reserves	\$ 87,411 \$	90,358
Employer Advance/Retired Reserves	478,083	445,267
Market Contingencies Reserves	(136,124)	(64,127)
DROP Reserves	15,641	11,948
PRSB Reserves	5,041	6,462
City Surplus Reserves	16,459	13,580
Other Reserves	248,029	284,677
Net Assets Available for Benefits	\$ 714,540 \$	788,165





Capital Assets

Because the Retirement System leases office space and furniture from the City of Fresno and uses the City's computer services and Intranet, the System does not currently have any significant capital assets.

System's Activities

A continued stock market contraction decreased net assets of the System by \$73,624,879, thereby accounting for a 9.3 percent decrease in the fiscal year ended. Key elements of this decrease are described in the sections that follow.

Revenues - Additions to System's Net Assets

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Revenues for the fiscal year ended June 30, 2002 totaled (\$43,975,402).

For the fiscal year ended, overall revenues had decreased by \$4,786,201 or 12.2 percent from the prior year, primarily due to a decline in the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2002.

Revenues – Additions to Plan Net Assets (Table 3) For the year ended June 30, 2002 and 2001

				Pct.
			Increase/	Increase/
	2002	2001	(Decrease)	(Decrease)
Employee Contributions	\$ 4,192,384	\$ 3,990,823	\$ 201,561	5.05
Net Investment Income (Loss)*	(48,167,786)	(43,180,024)	(4,987,762)	(11.55)
Total	\$ (43,975,402)	\$ (39,189,201)	\$ (4,786,201)	(12.21)

^{*} Net of investment expenses of \$6,051,186 and \$10,455,475 for June 30, 2002 and 2001.

Expenses – Deductions from System's Net Assets

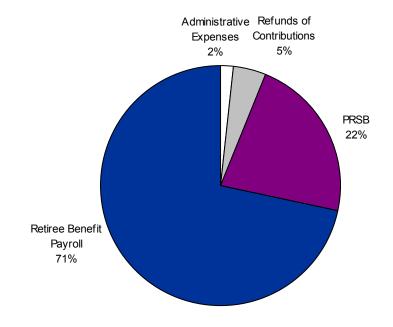
The System was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refunds of contributions to terminated employees, and the cost of administering the system.



Deductions for the fiscal year ended June 30, 2002, totaled \$29,649,477 which was an increase of 16.7 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the number of new retirees receiving benefits, and an increase in the average benefit.

Expenses – Deductions in Plan Net Assets (Table 4) For the year ended June 30, 2002 and 2001

	FY2002	FY2001
Administrative Expenses	\$ 486,445	\$ 481,442
Refunds of Contributions	1,349,011	1,442,856
PRSB	6,545,190	4,530,240
Retiree Benefit Payroll	21,268,831	18,962,265
Total Expenses	\$ 29,649,477	\$ 25,416,803
Total Expenses	\$ 29,049,477	\$ 25,410,603





System's Fiduciary Responsibilities

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets must be used exclusive for the benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers, and creditors with a general overview of the City of Fresno Employees Retirement System's finances and to show accountability for the funds it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Fresno Employees Retirement System 2600 Fresno Street, Suite 2162 Fresno, California 93721

Respectfully submitted,

Stanley L. McDivitt Retirement Administrator



STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS JUNE 30, 2002 AND 2001

		<u>2002</u>		<u>2001</u>
Assets:	•	00.750	•	222 744
Cash (Note 6)	\$	92,752	\$	868,744
Receivables:				
Interest and Dividends		3,397,475		4,199,788
Receivables for Investments Sold		5,269,706		7,261,412
Other Receivables		3,193,923		814,159
Total Receivables		11,861,104		12,275,359
Investments at Fair Value (Note 6) (Cost of \$692,693,475 in 2002 and \$703,916,648 in 200 Short Term Investments Domestic Equity Domestic Fixed Income International Equity Emerging Market Equity	1)	31,318,219 289,490,022 230,858,128 63,089,955 16,684,200		40,253,265 347,110,606 225,979,103 67,309,849 16,206,496
Mortgages		42,741,798		41,330,606
Real Estate		58,099,428		59,157,704
Total Investments		732,281,750		797,347,629
Collateral Held for Securities Lent (Note 8)		103,063,826		100,945,823
Total Assets		847,299,432		911,437,555
Liabilities				
Collateral Held for Securities Lent (Note 8)		103,063,826		100,945,823
Prepaid Employer Contributions (Note 4)		3,840,068		3,547,408
Payable for Investments Purchased		21,212,161		16,546,431
Payable for Foreign Currency Purchased		2,944,234		581,411
Other Liabilities		1,699,408		1,651,868
Total Liabilities		132,759,697		123,272,941
Net Assets Held In Trust for Benefits (Note 5)	\$	714,539,735	\$	788,164,614

(A schedule of funding progress is included on page 25.)

The notes to the financial statements on pages 12 to 24 are an integral part of this statement.



STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED JUNE 30, 2002 AND 2001

	2002	2001
Additions:		
Contributions:		
System Members	\$ 4,192,	,384 \$ 3,990,823
Total Contributions	4,192,	
Investment Income (Loss):		
Net Appreciation (Depreciation) in Value of Investments	(71,997,	,016) (70,093,822)
Interest	17,830,	,373 20,857,016
Dividends	8,826,	,492 9,414,398
Securities Lending Earnings (Note 8)	2,919,	,211 6,777,866
Other Investment Related	304,	,340 319,993
Less Investment Expense	(6,051,	,186) (10,455,475)
Net Investment Income (Loss)	(48,167,	,786) (43,180,024)
Total Additions	(43,975,	,402) (39,189,201)
Deductions:		
Benefit Payments	21,268,	,831 18,962,265
Post Retirement Supplemental Benefits	6,545,	,190 4,530,240
Refunds of Contributions	1,349,	,011 1,442,856
Administrative Expense	486,	,445_ 481,442_
Total Deductions	29,649,	,477 25,416,803
Net Increase/(Decrease)	(73,624,	,879) (64,606,004)
Net Assets Available for Benefits		
Beginning of Year	788,164,	,614 852,770,618
End of Year	\$ 714,539,	,735 \$ 788,164,614

The notes to the financial statements on page 12to 24 are an integral part of this statement.



1. DESCRIPTION OF THE SYSTEM

The Employees Retirement System ("System"), was established on June 1, 1939, and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. It is administered by the Retirement Board but not under the control of the City Council. The System is a single employer public employees retirement system that includes substantially all full-time employees, other than sworn officers of the Fire and Police Departments.

Total participants of the System were comprised as follows at June 30:

	2002	2001
Active Members		
Vested	1,443	1,446
Non-vested	743	725
Total Active Members	2,186	2,171
Retirees and Beneficiaries of Deceased Retirees Currently Receiving Benefits	1,064	1,002
Inactive Vested Members	113	106
Total Participants	3,363	3,279

Pension benefits are based upon a combination of age, years of service, monthly salary, and the option selected by the participant. Death and disability benefits are additionally based upon whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 5 years of credited service when they become 100 percent vested, but are not payable until the member attains the age of 55.

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Retirement Board. Employee contribution rates vary according to age and are designed to provide funding for approximately one-third of retirement benefits.



1. DESCRIPTION OF THE SYSTEM (CONTINUED)

The City's contribution rate is designed to provide funding for the remaining regular retirement and cost-of-living benefits, as well as all regular disability and survivors' benefits.

Cost-of-living increases for retirees under the Employees Retirement System are provided for in the Municipal Code, and are determined by changes in the Consumer Price Index.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Retirement System, with its own governing board, is an independent governmental entity separate and distinct from the City of Fresno. The System's annual financial statements are included in the City of Fresno Annual Financial Report as a pension trust fund.

The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed which is the period due per Section 2-1817 and 2-1821 of the Municipal Code. Benefit payments and refunds are recognized as expenditures in the period in which they are disbursed as required by the Plan.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, which establishes reporting standards for securities lending transactions. In accordance with Statement No. 28, cash received as collateral on securities lending transactions and investments made with that cash are reported as assets and liabilities resulting from these transactions and are both reported in the Statement of Plan Net Assets. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Plan Net Assets. Valuation of Investments

System investments are reported at fair value, calculated as cost plus unrealized gains or losses. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments in both bonds and mortgage-backed pass-through certificates are carried at fair value.

Cost values, as shown, are derived from Master Custodial Transaction Records. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The preparation of financial statements in conformity with generally accepted accounting principles requires the System administrator to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. CONTRIBUTIONS

Authority to Collect

The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 2-1817 and 2-1821. Funding Policy

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the projected unit credit method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded liability. The City has agreed to deposit an estimated contribution amount with the Retirement System at the beginning of the fiscal year, discounted at the actuarially-presumed interest rate. However, excess earnings in the System have funded the fiscal year 2002 City contributions.

Any variance between contributions needed and contributions made is adjusted in the following fiscal year. These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Employees' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary. Costs of administering the System are charged against System assets.

Contributions aggregating \$4,192,384 (\$ 0 employer and \$4,192,384 employee) were made in fiscal year 2002, based on an actuarial valuation determined as of June 30, 2000, which became effective for the year ended June 30, 2002. Currently, the Employer contribution rate is set at 11.97%; however, no funds were required from the City due to the prefunded actuarial liability of the system. Employer and System member contributions represented 0.0 percent and 4.7 percent, respectively, of the fiscal year 2002 covered payroll.

Contributions aggregating \$3,990,823 (\$ 0 employer and \$3,990,823 employee) were made in fiscal year 2001, based on actuarial valuations determined as of June 30, 1999, which became effective for the year ended June 30, 2001. The Employer contribution rate was set at 11.51%; however, no funds were required from the City due to the prefunded actuarial liability of the system. Employer and System member contributions represented 0.0 percent and 4.7 percent, respectively, of the fiscal year 2001 covered payroll.



3. CONTRIBUTIONS (CONTINUED)

The employer's contributions to the System for 2002, were offset by the System's prefunded actuarial accrued liability in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2001, as follows:

ost:

Contribution Amount	\$ 10,650,621
Prefunded Actuarial Accrued Liability Applied	(10,650,621)
Net Employer Contributions	\$ -
Pensionable Payroll Amount (Fiscal Year 2002)	\$ 89,275,955

4. PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited \$ 4,870,470 as prepaid normal contributions, which are classified as prepaid employer contributions to the System. The annual revenue recognition is credited to employer contributions. Since City contributions for fiscal year 2002 were offset by prefunded actuarial accrued liability, the System recognized no earnings from the prepaid contributions and credited the City with interest at the actuarial rate.

Balance June 30, 2001	\$ 3,547,408
Amount Earned During Fiscal Year 2002	0
Interest Credited for Fiscal Year 2002	292,660
Balance at June 30, 2002	\$ 3,840,068

5. NET ASSETS AVAILABLE FOR BENEFITS

Net assets available for benefits are segregated into Active Members Reserve (members' accumulated contributions) and reserves established by the Board for various benefit payments.

Reserves are established by the System from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. Note: The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. The System's major reserves are as follows:



5. NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

ACTIVE MEMBER RESERVES represent the total accumulated member contributions. Additions include member contributions and investment earnings; deductions include refunds of member contributions and transfers to Employer Advance/Retired Reserves.

EMPLOYER ADVANCE/RETIRED RESERVES represent the total accumulated employer contributions for future retirement payments to current active members and the total accumulated transfers from Active Member Reserves and investment earnings, less payments to retired members. Additions include contributions from the employer, transfers from Active Member Reserve and investment earnings; deductions include payments to retired members.

DEFERRED RETIREMENT OPTION PROGRAM RESERVE ("DROP RESERVE") represents funds reserved for Deferred Retirement Option Benefits accumulated by members.

POST RETIREMENT SUPPLEMENTAL RESERVE represents surplus earnings that have been allocated but not distributed to eligible retirees in accordance with Municipal Code Section 2-1853 "Post-Retirement Supplemental Benefit."

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 2-1853 "Post-Retirement Supplemental Benefit."

MARKET STABILIZATION RESERVE represents unrealized gains or losses recognized in the financial statements as a result of reporting investments at fair value instead of cost.

OTHER RESERVE represents reserves accumulated for future earnings deficiencies and investment losses. The Other Reserve is funded entirely from investment earnings.

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserve and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board. Any remaining net investment earnings are allocated to Other Reserve.

The other reserve account is credited with all investment income and charged with investment and other expenses. Transfers from undistributed earnings to reserve accounts are made at an annual rate of 8.25 percent of the average of the beginning and ending balances in the transferee reserve. Unrealized appreciation or depreciation of assets is recorded in a reserve for market fluctuation and reported in accordance with Government Accounting Standards Board Statement No. 25.



5. NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

The amount of reserves for the year ended June 30, 2002 and 2001, consisted of the following (in thousands):

	2002			2001		
Active Member Reserves	\$	87,411		\$	90,358	
Employer Advance/Retired Reserves		478,083			445,267	
Reserve for Market Contingencies		(136, 124)			(64,127)	
DROP Reserve		15,641			11,948	
Reserve for PRSB		5,041			6,462	
Reserve for City Surplus		16,459			13,580	
Other Reserves		248,029			284,677	
Net Assets Available for Benefits	\$	714,540		\$	788,165	

6. DEPOSITS AND INVESTMENTS

The System's investment guidelines reflect the duties imposed by an investment standard known as the "prudent expert rule." The prudent expert rule establishes a standard for all fiduciaries which includes anyone who has discretionary authority with respect to the System's investments.

State Street Bank and Trust serves as custodian of the System's investments. The System's asset classes include U.S. Equity, International Equity, Emerging Market Equity, U.S. Fixed Income, and Real Estate. Any class may be held in direct form, pooled form, or both. The System has eleven external investment managers, managing fifteen individual portfolios.

Investments at June 30, 2002 and 2001 consist of the following:

	2002			2001
Investments at Fair Value				
Short Term Investments	\$	31,318,219	\$	40,253,265
Domestic Equity		289,490,022		347,110,606
Domestic Fixed Income		230,858,128		225,979,103
International Equity		63,089,955		67,309,849
Emerging Market Equity		16,684,200		16,206,496
Mortgages		42,741,798		41,330,606
Real Estate		58,099,428		59,157,704
Total Investments at Fair Value	\$	732,281,750	\$	797,347,629



6. DEPOSITS AND INVESTMENTS (CONTINUED)

The Board has established a policy for investing in assets in accordance with the maximum and minimum range for each of the following asset classes:

Asset Class	Minimum	Target	<u>Maximum</u>
Cash	0	0	2
Domestic Fixed Income	20	23	26
Large / Mid Cap Equities	21	26	31
Real Estate	6	8	10
International Equities	11	13	15
Small Capital Equities	13	15	17
Emerging Market Equities	2	3	5
Long Duration Fixed Income	5	7	9
Alternative Investments	0	3	5
High Yield Bonds	0	2	4
		100%	

Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a "prudent expert" standard for investing. In no case may the System have five or more percent of System net assets invested in any one organization.

The Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the noncorrelated economic behavior of diverse asset classes. The result is a well-diversified portfolio. The investment portfolio as of June 30, 2002 did not contain investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented five percent or more of the total investment portfolio.

Investment Risk

Investments are categorized by type to give an indication of the level of credit risk assumed at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name. Category 3 includes investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. The System had no Category 2 and 3 investments in June 30, 2002 and 2001.



6. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit Risk

Bank balances of deposits are categorized by level of risk assumed, Category 1 deposits are those insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions trust department in the entity's name. Category 3 includes deposits that are uncollateralized. The carrying value of deposits approximated the bank balances at June 30, 2002.

That portion of the System's cash held by the City is a part of the City's cash and investment pool. Accordingly, the System's investments are held in the name of the City and are not specifically identifiable. At June 30, 2002, cost approximated fair value of the System's share of pooled cash and investments.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments categorized by credit risk may be found in the notes to the City's separately published Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.



6. DEPOSITS AND INVESTMENTS (CONTINUED)

The System's cash and investments are categorized below to provide an indication of the level of risk assumed by the System at June 30, 2002:

Investments				Fair Value
Category 1				
(Held by State Street Bank, System Custodian, in System's name):				
Domestic Equity	\$	289,490,022		
International Equity		79,774,155		
Domestic Fixed Income		273,599,926		
Total Category 1 Investments			\$	642,864,103
Category 2 & 3				0
Total Categorized Investments				642,864,103
Uncategorized				
State Street Short-Term Investment Fund				31,318,219
Collective Investment Trust-Real Estate				58,099,428
Investments Held by Broker-Dealers Under Securities Loans (Note 8):				
Domestic Equity (loans with cash collateral)		20,494,929		
Domestic Equity (loans with securities as collateral)		-		
International Equity (loans with cash collateral)		8,663,995		
Domestic Fixed Income (loans with cash as collateral)		71,793,544		
Domestic Fixed Income (loans with tri-party collateral)		2,111,358		
Total Investment Held Under Securities Loans				103,063,826
Total Uncategorized Investments		_		192,481,473
Total Investments			\$	835,345,576
Cash				
Category 1				
FDIC Insured Deposits in State Street Custodial Account			\$	100,000
Category 2				0
Category 3				
Deposits in State Street Custodial Account		(180,519)		
Deposits in City of Fresno Investment Pool		173,271		
Total Category 3 Cash				(7,248)
Total Cash and Deposits		:		92,752
Total Investments and Cash			\$	835,438,328
		•		
A reconciliation of total investments as shown on the Statement of Plan Net Asse	ets fo	llows:	¢.	00.750
Cash Investments at Fair Value			\$	92,752
Collateral Held for Securities Lent				732,281,750
		-	¢.	103,063,826
Total		=	\$	835,438,328



7. DERIVATIVES

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Derivative financial instruments held by the retirement system consist of the following:

- Cash securities containing derivative features, including callable bonds, structural notes and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.
- Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates, applied to a notional amount, including interest rate futures, options, swaps and caps, and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

Market risk: Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities, because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions, according to their contractual terms. For other types of derivatives, amounts of contractual cash flows may be either positive or negative depending upon prevailing market conditions relative to the reference prices or rates, and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contracts.

Credit Risk: Credit risk of cash securities containing derivative features, as explained, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. The other derivative instruments described above are subject to credit risk to the extent their value is a positive market value, and the counter party to such contract fails to perform under the terms of the instrument. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivative's due to the exchanges margin requirements.



8. SECURITIES LENDING

The City of Fresno Municipal Code and the Board's policies permit the Retirement Board of the Fresno Fire and Police Retirement System and the Retirement Board of the Fresno City Employees Retirement System to use investments of both Systems to enter into securities lending transactions, i.e., loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Systems first contracted with State Street Bank and Trust (State Street) in October of 1990, for securities lending services. As custodian, State Street acts as the agent for all securities lending transactions. Collateral must be cash, and securities issued or guaranteed by the U. S. Government or an irrevocable letter of credit. Transactions are collateralized at 102 percent of market value (contract value) for domestic securities and 105 percent of market value (contract value) for international securities. Collateral is marked to market daily. The custodian will invest collateral received in short-term investment funds (maintained by the custodian); money market mutual funds; and other similar investments, as the custodian may select. The carrying amount of securities on loan is equal to fair market value. At year-end, the System has no credit risk exposure to borrowers because the collateral value exceeds market value.

The average term of all System loans is overnight or "on demand." The custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, State Street indemnifies the System to the extent of replacing the securities loaned.

Cash collateral is invested in the lending agent's short-term investment pool, which, as of 2002 had a weighted average duration of 70 days and an average yield of 2.25 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool and a definitive statement of that relationship cannot be formulated by the System. There are no credit risks related to the securities lending transactions as of June 30, 2002.



8. SECURITIES LENDING (CONTINUED)

The System's securities lending income is as follows:

	 2002	2001			
Gross Income	\$ 2,919,211	\$	6,777,866		
Expenses:					
Borrower Rebates	2,103,861		6,088,806		
Bank Fees	 244,636		206,746		
Total Expenses	2,348,497		6,295,552		
Net Income from Securities Lending	\$ 570,714	\$	482,314		

FAIR VALUE OF LOANED SECURITIES AS OF JUNE 30, 2002

Collateralized by	Cash		Tri-Party	Totals	
U.S. Government & Agency	\$	70,255,355	\$ 2,065,078	\$ 72,320,433	
Domestic Equities		18,558,520		18,558,520	
Domestic Fixed Equities		1,334,731		1,334,731	
International Equities		8,487,640		8,487,640	
	\$	98,636,246	\$ 2,065,078	\$ 100,701,324	

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES AS OF JUNE 30, 2002

Collateralized by	Cash	Tri-Party	Totals
			_
U.S. Government & Agency	\$ 71,793,543	\$ 2,111,359	\$ 73,904,902
Domestic Equities	20,494,929	-	20,494,929
International Equities	8,663,995	-	8,663,995
	\$ 100,952,467	\$ 2,111,359	\$ 103,063,826



9. CONTINGENCIES

On August 12, 1998, the Retirement Board adopted legal opinions that have modified the definition of compensation earnable. The Board's actuary has estimated the annual cost to the City's contribution rate to range from \$247,000 to \$550,000. The estimated impact on the System's actuarial accrued liability for active and Deferred Retirement Option Program participants will likely range from \$5.143 to \$10.528 million. This additional liability would reduce the System's actuarial surplus which was \$231.2 million as of June 30, 2001.

10. ADMINISTRATIVE EXPENSES

Section 2-1824 of the Fresno Municipal Code provides that all administrative costs of the system shall be a charge against the assets of the retirement system.

11. POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created to provide assistance to eligible retirees to pay for various post-retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus, if available, in accordance with the procedures in Municipal Code Section 2-1853.

If an actuarial surplus is declared, the surplus is allocated into two components. One component composed of two-thirds of the declared surplus shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post-retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 2-1853(f)(4). Any unused portion shall be reserved in the PRSB Reserve and drawn upon in subsequent years if needed.

For the fiscal year ended June 30, 2002, the System distributed PRSB benefits in the amount of \$6,545,190 to eligible retirees and offset required City pension contributions by \$10,650,621. As of June 30, 2002, the City Surplus Reserve balance was \$16,459,017 and the PRSB Reserve balance was \$5,042,563 of which an estimated amount of \$3,344,820 is committed for PRSB distribution for the months of July through December 2002.



REQUIRED SUPPLEMENTAL SCHEDULES JUNE 30, 2002 AND 2001

1. REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS

Historical trend information, restated in accordance with GASB 25 and designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due, is as follows:

	(Dollars in Millions)											
										(6)		
				(2)			(4)			(Prefunded) /		
		(1)	Act	tuarial	(3)	(Pre	funded) /		(5)	Unfunded AAL		
Actuarial	*Ac	tuarial	Accrued		Percentage	Ur	nfunded	Ar	nual	Percentage of		
Valuation	Va	lue of	Liability		Funded	AAL		AAL		Co	vered	Covered Payroll
Date	Assets		(/	AAL)	(1) / (2)	(2) - (1)		(2) - (1)		Pa	ayroll	(4) / (5)
1994	\$	371	\$	358	103.6%	\$	(13)	\$	62	(20.9)%		
1996	\$	460	\$	378	121.8%	\$	(82)	\$	68	(122.1)%		
1997	\$	538	\$	402	133.7%	\$	(136)	\$	69	(195.8)%		
1998	\$	625	\$	409	152.8%	\$	(216)	\$	70	(309.4)%		
1999	\$	702	\$	427	164.7%	\$	(276)	\$	76	(361.3)%		
2000	\$	771	\$	471	163.5%	\$	(299)	\$	85	(353.5)%		
2001	\$	782	\$	501	156.2%	\$	(281)	\$	90	(311.9)%		

2. REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	nual Required Contribution	% Contribution
1991	\$ 10,046,097	100%
1992	\$ 11,111,698	100%
1993	\$ 11,598,223	100%
1994	\$ 8,658,566	100%
1995	\$ 6,175,899	100%
1996	\$ 6,261,140	100%
1997	\$ 6,648,888	100%
1998	\$ 7,229,603	100%
1999	\$ 8,690,090	100%
2000	\$ 9,477,839	100%
2001	\$ 9,865,910	100%
2002	\$ 10,650,621	100%



NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

Actuarial Assumptions

William M. Mercer, Inc., the System's actuary, performed an actuarial valuation and experience analysis as of June 30, 2001. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

- 1. Annual inflation is assumed at 4.50%.
- 2. Annual investment return is assumed to be 8.25%.
- 3. The City contribution rate is set at 11.97% (normal cost of 11.97% is offset by applying prefunded actuarial accrued liability of 11.97%.
- 4. Average employee contribution rate is 7.92%, although individual rates depend upon entry age.
- 5. Accrued benefits and costs are calculated using the projected unit credit method.
- 6. Withdrawal, disability and salary increase assumptions are based on actual System experience.
- 7. Post retirement mortality assumptions are based on the Society of Acturaries 1994 Group Annuity Mortality Table, setback two years for males and a one-year setback for females.
- 8. Actuarial valuation of assets is based upon a three-year smoothed recognition of realized and unrealized capital gains and losses.
- 9. Projected Salary Increase assumption is assumed to be 4.80%.
- 10. Post retirement benefit increases are projected as 4.25% based upon changes in the CPI for each year.
- 11. The system's actuarial surplus is being amortized on a level percentage of projected payroll over a fixed 15-year period.



SUPPLEMENTAL SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES YEAR ENDED JUNE 30, 2002 AND 2001

	200	02	2001		
Personnel Services					
Staff Salaries	\$ 19	91,947	\$	156,175	
Fringe Benefits	•	27,581	Ψ	24,066	
Pension Contribution	-	2,884		12,336	
Total Personnel Services	22	22,412		192,577	
Professional Services					
Actuarial	;	36,674		58,147	
Legal Counsel		14,312		86,568	
Information Systems Services		5,000		7,200	
Specialized Services	į	53,674		14,919	
Total Professional Services		39,660		166,834	
Communication					
Printing		9,405		3,650	
Telephone		2,056		2,357	
Postage		8,799		6,768	
Total Communication		20,260		12,775	
Rentals					
Office Rent		14,974		15,613	
Total Office Rent	•	14,974		15,613	
Other					
Education and Conference	4	40,984		32,696	
Membership & Dues		1,403		1,642	
Subscriptions & Publications		376		225	
Office Supplies		2,289		1,943	
Miscellaneous		4,715		7,316	
Reimbursement to City for Services		39,372		49,821	
Total Other		39,139		93,643	
Total Administrative Expenses	\$ 48	36,445	\$	481,442	



SUPPLEMENTAL SCHEDULES

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT EXPENSES YEAR ENDED JUNE 30, 2002 AND 2001

	2002		200	2001	
Investment Manager Fees					
Equity					
Domestic	\$	1,388,162	\$ 1,65	50,161	
International		425,524	55	57,119	
Fixed Income					
Domestic		647,590	71	11,094	
Real Estate		622,655	62	23,884	
Total Portfolio Management Fees		3,083,931	3,54	12,258	
Other Investment Expenses					
Foreign Income Taxes		173,323	19	94,630	
Custodial Services		89,315	S	90,821	
Investment Consultant		63,459	6	31,858	
Prepaid Employer Contribution Interest Expense		292,661	27	70,357	
Securities Lending Expense		2,348,497	6,29	95,552	
Total Other Investment Expenses		2,967,255	6,91	13,217	
Total Investment Manager Fees and					
Other Investment Expenses	\$	6,051,186	\$ 10,45	55,475	

SCHEDULE OF PAYMENTS TO CONSULTANTS YEAR ENDED JUNE 30, 2002 AND 2001

	 2002	2001		
Legal Services	\$ 44,312	\$	86,568	
Actuarial Services	36,674		58,147	
Miscellaneous	53,674		14,919	
City Information Services	 5,000		7,200	
Total Payments to Consultants	\$ 139,660	\$	166,834	

DORN, HELLIESEN & COTTLE INC.

October 14, 2002

INVESTMENT CONSULTING

Mr. William Quick, Chairman Mr. Brian Burry, Chairman City of Fresno Retirement Systems 2600 Fresno Street, Room 2162 Fresno, California 93721-3622

Dear Messrs Quick & Burry:

Introduction and Overview

For the second consecutive year, the investment markets and the City of Fresno Fire & Police and Employees Retirement Systems had negative investment returns for the fiscal year ended June 30, 2002. The last two years of negative investment performance reverses a previous six-year trend of positive investment returns. For the year ended June 30, 2002, the combined Systems had a net total loss from investments of 5.8%. This was only the second year of negative investment returns during the past ten fiscal years and was the third fiscal year return below the actuarial interest rate assumption. Given that information, three years were substantially offset by seven years of positive double-digit investment returns. The recent fiscal year return is below long-term expectations and below the Systems' total fund benchmark loss of 4.1%.

The Systems' total fund return over the past five years has averaged 6.4% versus the fund benchmark¹ of 5.3% and the actuarial interest rate assumption of 8.25%. Over the past five years, the Systems have earned an average return of approximately 1.85% per year below the actuarial interest rate assumption. During the past seven years, the Systems' achieved a 9.7% total fund return, versus 8.7% for the fund benchmark. The excess return above the actuarial interest rate was 1.0%.

Summary of Investment Objectives

The Boards hold fiduciary responsibility for the Systems. Given that investment performance is primarily determined by asset allocation decisions, the Boards have adopted a diversified asset Allocation Plan. This Plan is partially based on an analysis of the Systems' liabilities and their cash flow requirements. Other factors considered in the construction of the Plan are an effort to maximize the return on invested assets, and an attempt to minimize risk exposures.

650 CALIFORNIA STREET, 17TH FLOOR • SAN FRANCISCO, CALIFORNIA 94108-2702 • TEL: 415 986-2700 • FAX: 415 986-2777

¹ The current benchmark is 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Markets Free, 7% NCREIF Index, 28% Lehman Brothers Aggregate Bond Index, 7% Lehman Gov't/Corp Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index. From 2nd quarter 2001 through 4th quarter 2001, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Market Free, 7% Wilshire Real Estate Funds, 28% Lehman Aggregate, 7% Lehman Gov't/Corp Long, 2% Solomon Brothers High Yield, and 2% Brinson Partners Private Equity indexes.



DORN, HELLIESEN & COTTLE INC.

Messrs Quick & Burry Page Two

The primary investment objectives of the asset allocation Plan and investment manager structure are:

- 1) At a minimum, achieve a nominal return equivalent to the Systems' actuarial interest rate.
- 2) Earn a total return that averages 4% to 6% in excess of the rate of inflation.
- 3) Exceed the return of the Systems' passive, market-based, investment benchmark.
- 4) Achieve a total fund return ranking above the median of other public sector retirement funds. Risk-adjusted performance is expected to also be above that of the median pension fund.

In the past fiscal year, the Systems had difficulty satisfying these objectives. Prior to the past two fiscal years, each of these objectives was consistently satisfied over a five-year period. However, due to some of the System's equity managers under-performing the broad equity market benchmarks, these benchmarks have not been met recently. The ongoing bear market for common stocks has made the benchmarks difficult to meet. We expect to exceed these objectives once common stock returns begin to stabilize.

Investment Market Overview

Much like the past two fiscal years, the current year was also quite volatile. Factors adversely impacting the equity markets were an economic recession, the terrorist attacks of September 11th, on-going concerns related to terrorism, financial statement manipulation and fraud by several large companies, the demise of many technology companies and the prospects for war. As a result of these and other factors, domestic equity markets declined significantly in the third quarter of 2001 and then recorded a strong rebound in the fourth quarter of 2001. The first quarter of 2002 was essentially flat and the second quarter of 2002 saw another significant decline in the markets. Through the first three quarters of the fiscal year, the S&P 500 declined slightly more than 5% and then had a negative return of over 13%. For the year, the S&P 500 declined 18%.

In the third quarter of 2001, the S&P 500 posted a loss of 14.7%, with small cap stocks declining even further, as evidenced by the Russell 2000 loss of 20.8%. Internationally, the MSCI EAFE Index had a comparable loss to domestic large cap stocks, at 14.0% in US\$ terms. Thankfully, domestic bond performance was strong, with the Lehman Aggregate Index up 4.6%.

During the fourth quarter of 2001, both the domestic and international equity markets rebounded strongly, while the bond market was flat. The S&P 500 returned 10.7% in the quarter and the Russell 2000 was up 21.1%. The EAFE Index was lower than domestic stocks, at 7.0% in US\$ terms. Domestic bonds did not add to returns, with the Lehman Aggregate Index returning 0.0%.

All capital markets were soft in the fiscal year's third quarter, with both large cap stocks and bonds producing only slightly positive results. The S&P 500 returned 0.3%, while the Lehman Aggregate Index returned 0.1%. Small cap stocks had somewhat stronger returns with the Russell 2000 up 4.0%. Internationally, the MSCI EAFE Index advanced a modest 0.6% in US\$ terms.



DORN, HELLIESEN & COTTLE INC.

Messrs Quick & Burry Page Three

Finally, in the second calendar quarter of 2002 (or the fourth quarter of the fiscal year) domestic equity results declined significantly, again. The S&P 500 posted a loss of 13.4% while small cap stocks declined 8.4%, as represented by the Russell 2000. Internationally, the MSCI EAFE Index posted a more modest loss of 1.9% in US\$ terms. Domestic bond performance was strong, with the Lehman Aggregate Index up 3.7%.

Summary of Investment Results

The combined Systems results followed the overall market trends on a quarterly basis. Third quarter 2001 saw the combined Systems decline 7.8%, and modestly trailed the 7.6% loss of its benchmark. This return ranked the Systems in the third quartile (63rd percentile) of pension funds. With a rebounding of equity market returns in the fourth quarter of 2001, the combined System's returned 6.3%, ranking near median (54th percentile) versus other pension funds. This combined System return trailed the benchmark return of 7.7%. Total System returns were dramatically impacted by the System's mid cap manager and one small cap manager. Please note that this mid-cap manager was subsequently replaced. In the calendar first quarter of 2002, the total System performance was slightly positive, with a return of 0.5%, modestly trailing its benchmark and ranked in the 53rd percentile of pension funds. During calendar second quarter 2002, the total System declined 4.4%, equaling its benchmark and ranked in the 43rd percentile of pension funds. In summary, the second fiscal quarter of the year significantly reduced the relative performance versus the total System benchmark.

As mentioned earlier, the Systems' total System loss for fiscal year 2002 was 5.8%. This was more than the total System benchmark loss of 4.1% and ranked in the 60th percentile of total pension funds.

Asset Allocation

The Systems' combined fund ended the fiscal year with all asset segments well within their allocation target ranges. The allocation to domestic small cap is slightly above target due to the elimination of the mid cap portfolio. Fixed income assets were over-allocated, as of June 30, 2002, due to the poor performance of the equity markets.

Transaction Cost Analysis and Brokerage Recapture Programs

Similar to the last few years, trading costs associated with the Systems' domestic equity managers were reviewed to ensure that commission costs were reasonable and execution costs appropriate. Overall commission and price penalty costs were stable, which indicates that effective trading is being practiced. Additionally, the commission recapture program is being implemented through a number of brokerage firms. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.



Investment Consultant's Report on Investment Activity

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Messrs Quick & Burry Page Four

Performance Comparison

The following page provides a table comparing the Systems' total fund return to all pension funds. The vertical bands represent the range of fund performances with the red band representing the 25th percentile at the top and 75th percentile at bottom. The solid black line represents the median fund's performance. As the graph illustrates the fund has ranked above the benchmark over all periods greater than the past year. Relative to the median fund, the Systems have out-performed over the four-through seven-year periods.

Summary

In conclusion, long-term results remain strong, however, the fund experienced a difficult fiscal year with a loss of 5.8%, versus a 4.1% decline of the benchmark and a 4.9% median total fund loss. Most of the portfolio managers who were not competitive with their respective benchmarks have been replaced and most of the newly hired portfolio managers are adding to improved relative results. While most of the equity managers were greatly challenged during past year, the fixed income asset class performed well and offered excellent diversification. At all times, the Funds were managed in accordance with the Systems' policies.

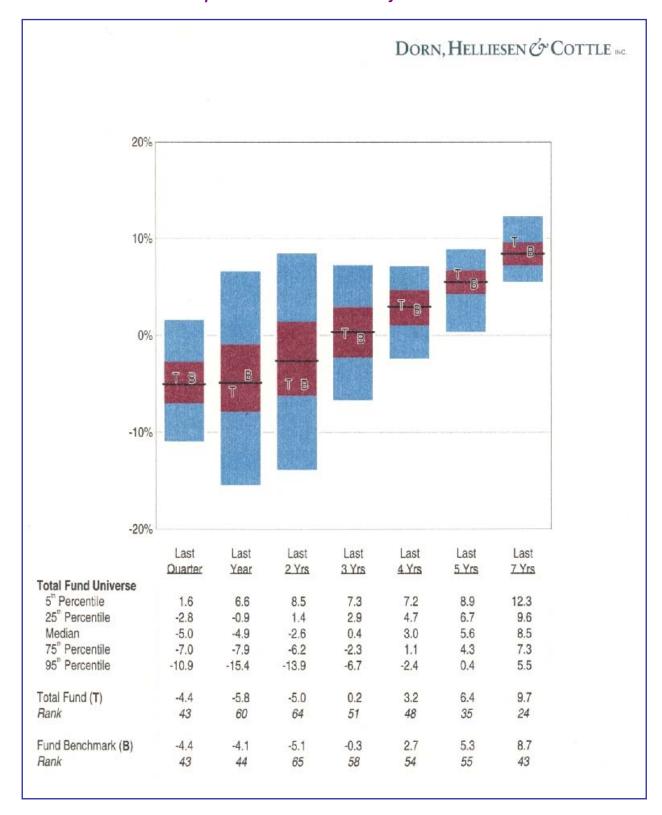
Sincerely,

Villiam R. Cottle

William R. Cottle, CFA



Investment Consultant's Report On Investment Activity





SUMMARY OF INVESTMENT OBJECTIVES AND POLICIES STATEMENT

The System's investment assets are managed by external investment management firms. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The System's goal is to fund benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protecting against loss of purchasing power by achieving rates of return above inflation, and to maintain a fully funded pension status.

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the system, audits assets, has adopted an Investment Objectives and Policy Statement which reflects the Board's policies for management of the System's investments. The Board reserves the right to amend, supplement or rescind this Statement at any time. The Investment Objectives and Policy Statement establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian and consultants.

The System's primary investment objective is to take prudent risk, as necessary, to minimize the cost of meeting the obligations of the System. The purpose of the Investment Objectives and Policy Statement is to express in operational terms: return expectations; prudence with respect to risk, and compliance with statutes and regulations.

An integral part of the overall investment policy is the strategic asset allocation policy. This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. This emphasizes a maximum diversification of the portfolio that protects the System from declines that a particular asset class may experience in a given period. Both traditional assets (cash, bonds, domestic stocks, fixed income and mortgages) and nontraditional assets (real estate, international stock and emerging equity market stock) are included in the mix.

Total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the System. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities will be conducted so as to serve the best interests of the System's members and beneficiaries.

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of plan participants. These guidelines consist of preferences with respect to specific recurring proxy-voting issues followed by general statement of voting policies. The System will at all times strive to cast proxy votes so as to advance the overall good of plan participants.



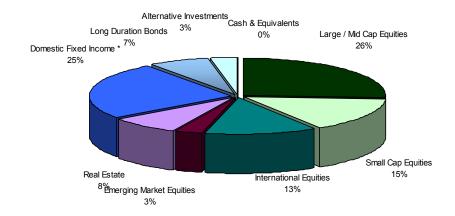
INVESTMENT RESULTS

	Fiscal Year		Annua		
	2002	2 Year	3 Year	5 Year	7 Year
Domestic Equity	40.7	47.4	40.0	0.0	
Total Large Cap Domestic Equity	-19.7	-17.1	-10.6	3.2	9.9
Median Equity Benchmark: S&P 500	-15.7 -18.0	-13.1 -16.4	-4.9 -9.2	5.0 3.7	10.9 10.7
Benchmark. Sap 500	-10.0	-10.4	-9.2	3.7	10.7
Total Small Cap Domestic	-13.6	-8.4	0.6	4.9	8.8
Median Equity	-15.7	-13.1	-4.9	5.0	10.9
Benchmark: Russell 2000	-8.6	-4.1	1.7	4.4	8.7
International Equity					
Total International Equity	-0.7	-8.0	-0.6	3.3	8.2
Median International Equity	-8.0	-14.9	-1.6	3.0	6.9
Benchmark: EAFE	-9.2	-16.6	-6.5	-1.3	2.7
Emerging Market Equity					
Total Emerging Market Equity	2.5	-5.8	-0.7	N/A	N/A
Median Emerging Market Equity	0.7	-13.7	-4.9	-7.6	-1.8
Benchmark: MSCI Emerging Markets Free Index	1.3	-13.3	-6.3	-8.4	-3.3
Fixed Income					
Total Fixed Income	8.5	9.8	7.4	6.7	6.6
Median Fixed Income	8.0	9.7	8.0	7.5	7.2
Benchmark: Lehman Aggregate Bond Index	8.6	9.9	8.1	7.6	7.3
Long Duration Fixed Income					
Total Long Duration Fixed Income	8.0	10.0	8.2	8.3	8.1
Benckmark: Lehman Long Gov/Corp	8.3	9.8	8.0	8.2	7.7
Real Estate					
Total Real Estate	3.2	6.8	9.2	11.8	N/A
Benchmark: NCREIF Index	5.0	8.0	9.2	11.5	10.9
Total Fund					
Retirement System	-5.8	-5.0	0.2	6.4	9.7
Median Total Fund	-4.9	-2.6	0.4	5.6	8.5
Benchmark: Weighted Indexes	-4.1	-5.1	-0.3	5.3	8.7

Calculations are prepared using a time-weighted rate of return based on the market rate of return in accordance with Association for Investment Management and Research's performance presentation standards.



Target Allocation

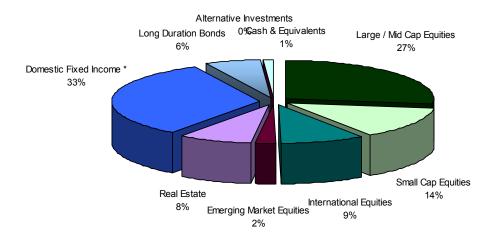


	Current	Allocation	
Asset Class	Target	Range	Actual
Large / Mid Cap Equities	26%	21% - 31%	27%
Small Cap Equities	15%	13 - 17	14%
International Equities	13%	11 - 15	9%
Emerging Market Equities	3%	2 - 5	2%
Real Estate	8%	6 - 10	8%
Domestic Fixed Income *	25%	20 - 26	33%
Long Duration Bonds	7%	5 - 9	6%
Alternative Investments	3%	0 - 5	0%
Cash & Equivalents	0%	0 - 2	1%

^{* 2%} High Yield Bonds Managed Within Domestic Fixed Income

	Expected	Actual
Expected Return	8.7%	-5.8%
3 Year Standard Deviation	11.8	11.0%

Actual Asset Allocation





LARGEST STOCK/BOND HOLDINGS

Largest Stock Holding (By Market Value) As of June 30, 2002

	Shares	Stock	Market Value
1)	96,467	Microsoft Corp	\$ 5,280,388
2)	169,747	General Electric Co	4,934,531
3)	140,574	Pfizer Inc	4,923,461
4)	114,669	Citigroup Inc	4,446,500
5)	60,451	American Intl Group Inc	4,127,393
6)	65,284	Johnson & Johnson	3,414,065
7)	85,367	Home Depot Inc	3,137,693
8)	56,206	Wal Mart Stores Inc	3,094,015
9)	41,813	Kohls Corp	2,932,302
0)	81,840	MBNA Corp	2,708,297
Total	Largest Stock I	Holdings	\$ 38,998,645

Largest Bond Holdings (By Market Value) As of June 30, 2002

	Par	Bonds		Due	Market Value
1)	7,109,044	FHLMC TBA Jul 30 Gold Single	8.875%	31 Dec 2099	\$ 7,253,429
2)	6,678,860	United State Treas Nts	6.750%	15 May 2007	6,770,695
3)	4,759,864	United State Treas Bds	5.750%	15 Feb 2019	6,473,415
4)	5,649,049	FNMA Pool	6.500%	01 Jan 2032	5,758,471
5)	5,644,107	United States Treas Nts	6.125%	31 May 2004	5,688,188
6)	3,544,029	United States Treas Bds	6.250%	15 Nov 2021	4,533,026
7)	4,382,010	FNMA Pool	6.500%	01 Feb 2032	4,466,890
8)	3,983,799	United States Treas Bds	7.000%	15 Feb 2026	4,143,151
9)	3,927,205	FNMA Pool	6.000%	01 Oct 2031	4,003,275
0)	3,567,546	FNMA TBA Jul 30 Single Fam	7.500%	01 Dec 2099	3,636,685
Tota	\$ 52,727,225				

A complete list of portfolio holdings is available upon request.

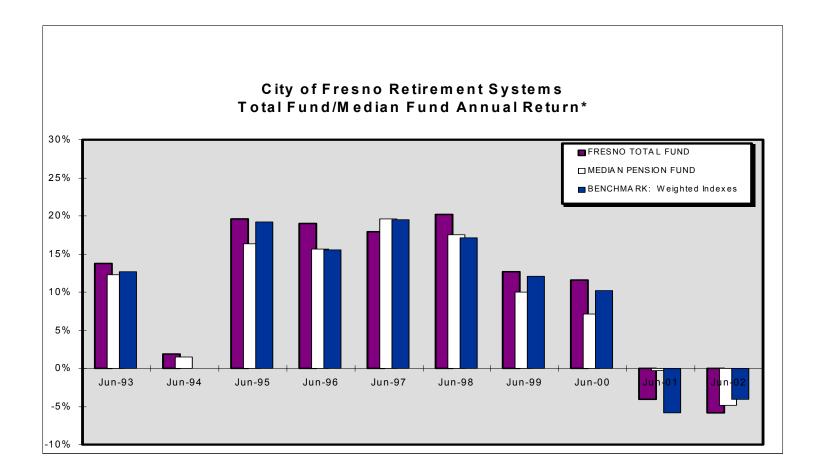


SCHEDULE OF COMMISSIONS

Broker	Com	Total nmissions	Number of Shares	Comm Cost/ Share
Goldman Sachs & Co	\$	51,081	1,168,311	\$0.04
Broadcort thru Merrill-Rcp*		45,596	788,865	0.06
Merrill Lynch Pierce Fenner		34,504	998,642	0.03
Banc America Sec Mont Div.		28,381	980,872	0.03
Morgan Stanley & Co Inc.		27,421	1,188,479	0.02
Lehman Brothers Inc.		26,762	637,911	0.04
Salomon Smith Barney Inc.		22,948	717,248	0.03
Deutsche Banc Alex Brown		21,483	443,036	0.05
Credit Suisse First Boston		18,231	758,185	0.02
J.P. Morgan Inv. Mgt.		17,445	562,400	0.03
Top 10 Total		293,852	8,243,949	0.04
All Other Brokerage Firms		255,646	10,143,389	0.03
Total	\$	549,498	18,387,338	\$0.03

INVESTMENT SUMMARY

	Cash and		Percent	
	Value as of	June 30, 2002		of Fund
Equity				
Domestic	\$	289,490,022		39.5%
International		63,089,955		8.5%
Emerging Market Equity	y	16,684,200		2.3%
Fixed Income				
Domestic		273,599,926		37.4%
Real Estate		58,099,428		7.9%
Short Term Investments		31,318,219		5.1%
	\$	732,281,750	-	100.0%



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Actuarial Certification Letter



Revised 12/10/01

Actuarial Certification

The annual actuarial valuation required for the City of Fresno Employees Retirement System has been prepared as of June 30, 2001 by William M. Mercer, Incorporated. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the System's assets, liability and future contribution requirements. Our calculations are based upon member and financial data provided to us by the System's staff. This data has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior valuation data.

The contribution requirements are determined as a level percentage of payroll. The funding objective of the employer is to provide a contribution to fund for the normal cost and a contribution to amortize any unfunded actuarial accrued liability. There is no unfunded actuarial accrued liability as of June 30, 2001. The System has assets in excess of the actuarial accrued liability, and the required contributions in the body of this report have not been offset for any such "surplus". The allocation of surplus is provided for in Section 2-1853 of the municipal code and can be found in the Surplus Allocation section of this report.

Contribution levels are recommended by the Actuary and adopted by the Board every year. The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities decreased from 163% to 156% from June 30, 2000 to June 30, 2001, primarily due to unfavorable investment experience.

Effective December 11, 2000, two optional forms of benefits (options 2 and 3) were made available for DROP participants. We have incorporated this plan amendment in our June 30, 2001 valuation.

There have been no changes in assumptions since our June 30, 2000 valuation.

It is our opinion that the assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Retirement System and meet the parameters required by GASB Statement 25.

A list of the supporting schedules we prepared for inclusion in the actuarial and financial sections of the System's CAFR report is provided below.

- (1) Summary of Actuarial Assumptions and Methods;
- (2) Solvency Test;

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William M. Mercer, Incorporated



Actuarial Certification Letter



Revised 12/10/01

(3) Actuarial Analysis of Financial Experience.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; and
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned is a member of the American Academy of Actuaries and ERISA Enrolled Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

William M. Mercer, Incorporated

Andy Yeung, ASA, EA, MAAA

12/10/01

Date

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William M. Mercer, Incorporated



Summary of Assumptions and Funding Method

APPENDIX B

Appendix B Summary of Assumptions and Funding Method

Assumptions

Valuation Interest Rate

8.25%

Inflation:

4.50%

Post-Retirement Mortality

(a) Service

Males

1994 Male Group Annuity Mortality Table setback two years

Females

1994 Female Group Annuity Mortality Table with one year

setback

(b) Disability

1981 Disability Mortality Table for General Members,

setback three years

Pre-Retirement Mortality

Based upon the 6/30/2000 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2000 Experience Analysis

Disability Rates

Based upon the 6/30/2000 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2000 Experience Analysis

DROP Rates

First year eligible Second year eligible 50% participation 25% participation

Third year eligible Thereafter 10% participation 0% participation

Members are assumed to remain in DROP for 4 years.

Marriage Rates:

It is assumed that 80% of all male members and 50% of all

female members will be married at retirement.

COLA Assumption:

4.25% per year.

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William M. Mercer, Incorporated

Summary of Assumptions and Funding Method

APPENDIX B

Salary Scale

Made up of Merit and Longevity and Inflation Components. The inflation component is equal to 4.50%. The merit and longevity component varies by service and is illustrated below:

Years Since Hire	Merit and Longevity Assumption
<1 year	8.00%
1 year	6.00%
2 years	5.00%
3 years	4.20%
4 years	3.10%
5 years	2.40%
6 years	1.10%
7 years	0.90%
8 years	0.70%
9 or more years	0.30%

Assets

Three-year smoothed recognition of realized and unrealized capital gains and losses.

Funding Method

The System's liability is being funded on the Projected Unit Credit Actuarial Cost method.

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William M. Mercer, Incorporated

Probabilities of Separation Prior to Retirement – Male Members

APPENDIX B

Probabilities of Separation Prior to Retirement Male Members

	Withdrawal							Terminated			Service
Age	0<=x<1	1<=x<2	2<=x<3	3<=x<4	4<=x<5	5<=x<10	x>=10	Vested	Disability	Death	Retiremen
<= 20	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0005	0.0000
21	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0006	0.0000
22	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0006	0.0000
23	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0006	0.0000
24	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0007	0.0000
25	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0007	0.0000
26	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0007	0.0000
27	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0008	0.0000
	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0008	0.0000
28	0.1000	0.0600	0.0500	0.0400	0.0300	0.0300	0.0300	0.0000	0.0000	0.0008	0.0000
29				0.0400	0.0300	0.0300	0.0300	0.0050	0.0001	0.0009	0.0000
30	0.1000	0.0600	0.0500		0.0300	0.0300	0.0300	0.0050	0.0001	0.0009	0.0000
31	0.1000	0.0600		0.0400		0.0272	0.0272	0.0050	0.0003	0.0009	0.0000
32	0.1000	0.0600	0.0500	0.0400	0.0300				0.0003	0.0009	0.0000
33	0.1000	0.0600	0.0500	0.0400	0.0300	0.0232	0.0225	0.0050		0.0009	0.0000
34	0.1000	0.0600	0.0500	0.0400	0.0300	0.0222	0.0200	0.0050	0.0005	0.0009	0.000
35	0.1000	0.0600	0.0500	0.0400	0.0300	0.0213	0.0190	0.0060	0.0005		
36	0.1000	0.0600	0.0500	0.0400	0.0300	0.0203	0.0180	0.0070	0.0015	0.0009	0.000
37	0.1000	0.0600	0.0500	0.0400	0.0300	0.0200	0.0170	0.0080	0.0025	0.0010	0.000
38	0.1000	0.0600	0.0500	0.0400	0.0300	0.0200	0.0160	0.0090	0.0035	0.0010	0.000
39	0.1000	0.0600	0.0500	0.0400	0.0300	0.0199	0.0150	0.0100	0.0045	0.0011	0.000
40	0.1000	0.0600	0.0500	0.0400	0.0300	0.0198	0.0140	0.0120	0.0050	0.0012	0.000
41	0.1000	0.0600	0.0500	0.0400	0.0300	0.0196	0.0130	0.0140	0.0055	0.0012	0.000
42	0.1000	0.0600	0.0500	0.0400	0.0300	0.0194	0.0120	0.0150	0.0060	0.0013	0.000
43	0.1000	0.0600	0.0500	0.0400	0.0300	0.0192	0.0110	0.0150	0.0065	0.0015	0.000
44	0.1000	0.0600	0.0500	0.0400	0.0300	0.0190	0.0100	0.0150	0.0070	0.0016	0.000
45	0.1000	0.0600	0.0500	0.0400	0.0300	0.0180	0.0090	0.0150	0.0075	0.0017	0.000
46	0.1000	0.0600	0.0500	0.0400	0.0300	0.0170	0.0080	0.0150	0.0080	0.0019	0.000
47	0.1000	0.0600	0.0500	0.0400	0.0300	0.0160	0.0070	0.0150	0.0085	0.0020	0.000
48	0.1000	0.0600	0.0500	0.0400	0.0300	0.0150	0.0060	0.0150	0.0085	0.0023	0.000
49	0.1000	0.0600	0.0500	0.0400	0.0300	0.0150	0.0050	0.0150	0.0085	0.0025	0.000
50	0.1000	0.0600	0.0500	0.0400	0.0300	0.0145	0.0040	0.0150	0.0085	0.0028	0.000
51	0.1000	0.0600	0.0500	0.0400	0.0300	0.0140	0.0030	0.0150	0.0085	0.0031	0.000
52	0.1000	0.0600	0.0500	0.0400	0.0300	0.0135	0.0020	0.0150	0.0085	0.0035	0.000
53	0.1000	0.0600	0.0500	0.0400	0.0300	0.0130	0.0010	0.0150	0.0085	0.0039	0.000
54	0.1000	0.0600	0.0500	0.0400	0.0300	0.0125	0.0005	0.0150	0.0085	0.0043	0.000
55	0.1000	0.0600	0.0500	0.0400	0.0300	0.0120	0.0000	0.0140	0.0085	0.0048	0.070
56	0.1000	0.0600	0.0500	0.0400	0.0300	0.0115	0.0000	0.0130	0.0085	0.0053	0.084
57		0.0600	0.0500	0.0400	0.0300	0.0110	0.0000	0.0120	0.0085	0.0060	0.098
	0.1000	0.0600	0.0500	0.0400	0.0300	0.0100	0.0000	0.0110	0.0085	0.0068	0.102
58	0.1000				0.0300	0.0095	0.0000	0.0100	0.0085	0.0076	0.105
59	0.1000	0.0600	0.0500	0.0400		0.0000	0.0000	0.0000	0.0000	0.0086	0.105
60	0.0000	0.0000	0.0000	0.0000	0.0000			0.0000	0.0000	0.0097	0.125
61	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000		0.0000	0.0037	0.180
62	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000		0.0109	0.130
63	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000		0.130
64	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0139	
65	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0156	0.249
66	0.0000	0.0000	0.0000	-0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0175	0.27
67	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0194	0.400
68	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0214	0.509
69	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0234	0.611
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.000

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William M. Mercer, Incorporated



Probabilities of Separation Prior to Retirement – Female Members

APPENDIX B

Probabilities of Separation Prior to Retirement Female Members

			V	Vithdrawal				Terminated		Ordinary	
Age	0<=x<1	1<=x<2	2<=x<3	3<=x<4	4<=x<5	5<=x<10	x>=10	Vested	Disability	Death	Retirement
<= 20	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
21	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
22	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
23	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
24	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
25	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
26	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
27	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
28	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0003	0.0000
29	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0000	0.0000	0.0004	0.0000
30	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0300	0.0300	0.0001	0.0004	0.0000
31	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0297	0.0300	0.0001	0.0004	0.0000
32	0.1300	0.0600	0.0500	0.0500	0.0500	0.0500	0.0285	0.0300	0.0003	0.0004	0.0000
			0.0500	0.0500	0.0500	0.0500	0.0273	0.0300	0.0004	0.0005	0.0000
33	0.1300	0.0600		0.0500	0.0500	0.0500	0.0262	0.0300	0.0005	0.0005	0.0000
34	0.1300	0.0600	0.0500			0.0300	0.0250	0.0300	0.0005	0.0005	0.0000
35	0.1300	0.0600	0.0500	0.0500	0.0500			0.0300	0.0005	0.0006	0.0000
36	0.1300	0.0600	0.0500	0.0500	0.0500	0.0300	0.0240		0.0015	0.0006	0.0000
37	0.1300	0.0600	0.0500	0.0500	0.0500	0.0300	0.0230	0.0300	0.0025	0.0006	0.0000
38	0.1300	0.0600	0.0500	0.0500	0.0500	0.0300	0.0220	0.0300	0.0035	0.0007	0.0000
39	0.1300	0.0600	0.0500	0.0500	0.0500	0.0300	0.0210		0.0045		0.0000
40	0.1300	0.0600	0.0500	0.0500	0.0500	0.0200	0.0175	0.0250		0.0008	
41	0.1300	0.0600	0.0500	0.0500	0.0500	0.0200	0.0150	0.0200	0.0055	0.0008	0.000
42	0.1300	0.0600	0.0500	0.0500	0.0500	0.0200	0.0125	0.0200	0.0060	0.0009	0.000
43	0.1300	0.0600	0.0500	0.0500	0.0500	0.0200	0.0100	0.0200	0.0065	0.0009	0.0000
44	0.1300	0.0600	0.0500	0.0500	0.0500	0.0200	0.0100	0.0200	0.0070	0.0010	0.0000
45	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0100	0.0200	0.0075	0.0010	0.0000
46	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0100	0.0200	0.0080	0.0011	0.0000
47	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0100	0.0200	0.0085	0.0012	0.000
48	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0100	0.0200	0.0085	0.0013	0.0000
49	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0100	0.0200	0.0085	0.0014	0.0000
50	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0080	0.0200	0.0085	0.0015	0.0000
51	0.1300	0.0600	0.0500	0.0500	0.0500	0.0100	0.0060	0.0200	0.0085	0.0017	0.0000
52	0.1300	0.0600	0.0500	0.0500	0.0500	0.0085	0.0040	0.0200	0.0085	0.0019	0.0000
53	0.1300	0.0600	0.0500	0.0500	0.0500	0.0070	0.0020	0.0200	0.0085	0.0021	0.0000
54	0.1300	0.0600	0.0500	0.0500	0.0500	0.0065	0.0010	0.0200	0.0085	0.0022	0.000
55	0.1300	0.0600	0.0500	0.0500	0.0500	0.0050	0.0000	0.0180	0.0085	0.0025	0.1586
56	0.1300	0.0600	0.0500	0.0500	0.0500	0.0040	0.0000	0.0160	0.0085	0.0028	0.0824
57	0.1300	0.0600	0.0500	0.0500	0.0500	0.0030	0.0000	0.0140	0.0085	0.0031	0.042
58	0.1300	0.0600	0.0500	0.0500	0.0500	0.0020	0.0000	0.0120	0.0085	0.0036	0.044
59	0.1300	0.0600	0.0500	0.0500	0.0500	0.0010	0.0000	0.0100	0.0085	0.0042	0.089
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0048	0.115
61	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0055	0.140
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0063	0.226
62				0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0072	0.123
63	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0082	0.128
64	0.0000	0.0000	0.0000			0.0000	0.0000	0.0000	0.0000	0.0093	0.306
65	0.0000	0.0000	0.0000	0.0000	0.0000			0.0000	0.0000	0.0093	0.306
66	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000				0.131
67	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0116	
68	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0126	0.224
69	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0137	0.262
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.000

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William M. Mercer, Incorporated



SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active/DROP	Number	Annual Payroll	-	Annual erage Pay	% Increase in Average Pay
l	A ation Manakana	4074	Ф 04 475 000	Φ.	44 405	0.50/
June 30, 2001	Active Members	1971	\$ 81,175,630	\$	41,185	3.5%
	DROP Participants	200	9,001,264	Φ.	45,006	3.7%
	Totals	2171	\$ 90,176,894	\$	86,191	
June 30, 2000	Active Members	1934	\$ 76,988,782	\$	39,808	9.1%
,	DROP Participants	178	7,728,203		43,417	4.2%
	Totals	2112	\$ 84,716,985	\$	83,225	
June 30, 1999	Active Members	1902	\$ 69,370,703	\$	36,473	4.5%
	DROP Participants	168	7,001,540		41,676	5.6%
	Totals	2070	\$ 76,372,243	\$	78,149	
June 30, 1998	Active Members	1864	\$ 65,056,340	\$	34,901	-1.40%
	DROP Participants	120	4,737,340		39,478	Base Year
	Totals	1984	\$ 69,793,680	\$	74,379	-0.06%
June 30, 1997	Active Members	1957	\$ 69,286,627	\$	35,405	1.20%
June 30, 1996	Active Members	1930	\$ 67,499,533	\$	34,974	7.40%
June 30, 1995	Active Members	1891	\$ 61,590,138	\$	32,570	6.00%
June 30, 1993	Active Members	2026	\$ 62,263,875	\$	30,732	1.08%
June 30, 1991	Active Members	1879	\$ 52,133,387	\$	27,745	

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO OR REMOVED FROM ROLLS

	Added to Rolls	Removed from Rolls	Rolls - End of Year		
Year Ended	No.	No.	No.	% Increase in Annual Allowances	Average Annual owances
June 30, 2002	102	40	1064	11.50	\$ 26,141
June 30, 2001	43	32	1002	5.39	\$ 23,446
June 30, 2000	94	39	991	15.13	\$ 22,246
June 30, 1999	38	19	936	9.76	\$ 19,322
June 30, 1998	30	16	917	4.49	\$ 17,604
June 30, 1997	21	3	903	3.88	\$ 16,847
June 30, 1996	42	6	885	3.90	\$ 16,218
June 30, 1995	30	15	849	2.66	\$ 15,609
June 30, 1994	31	5	818	3.82	\$ 15,205



SOLVENCY TEST

(ROUNDED TO THE NEAREST THOUSAND)

AGGREGATE ACCRUED LIABILITIES FOR

(1) Active Member Valuation Contributions		(2) (3) Retirees Active and Members Beneficiaries (Employer		Actuarial Value of	Portion of Accrued Liabilities Covered by Reported Asset			
Date		(Includes Deferred Vested)	Financed Portion)	Assets	(1)	(2)	(3)	
6/30/2001	\$ 84,317,000	\$ 300,562,000	\$ 115,707,000	\$ 781,831,000	100%	100%	100%	
6/30/2000	82,588,000	280,005,000	108,614,000	770,649,000	100%	100%	100%	
6/30/1999	85,630,000	259,886,000	81,022,000	702,481,000	100%	100%	100%	
6/30/1998	81,736,000	240,587,000	86,852,000	625,121,000	100%	100%	100%	
6/30/1997	88,020,000	210,441,000	103,906,000	538,055,000	100%	100%	100%	
6/30/1996	81,336,000	195,619,000	100,764,000	460,073,000	100%	100%	100%	
6/30/1994	69,292,000	185,946,000	103,164,000	371,158,000	100%	100%	100%	
6/30/1992	57,006,000	158,809,000	105,013,000	269,203,000	100%	100%	50.84%	

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	Plan Years							
(Amounts in Millions)	2001	2000	1999	1998	1997	1996		
Prior Valuation Actuarial Accrued Liability	\$ 471	\$ 427	\$ 409	\$ 402	\$ 378	\$ 358		
Expected Increase from Prior Valuation	-	-	-	-	-	-		
Salary Increase (Greater) Less than Expected	3	10	(3)	(5)	-	(1)		
Asset Return (Less) Greater than Expected	27	35	33	33	24	(3)		
Other Experience	-	-	2	-	-	-		
Economic Assumption Changes	-	11	(12)	(20)	-	24		
Noneconomic Assumption Changes	-	(12)	(2)	(1)	-	-		
Ending Actuarial Accrued Liability	\$ 501	\$ 471	\$ 427	\$ 409	\$ 402	\$ 378		



MAJOR PROVISIONS OF THE RETIREMENT PLAN

Eligible Employees

All non-Fire and Police employees who enter service after July 1, 1952, and are certified from a civil service list for permanent employment.

Final Average Salary (FAS)

Highest three consecutive-year average.

Requirement: age 55 and 5 years of service.

Benefit: Sum of (1) and (2) times (3)

- (1) 2% of FAS times years of service, not-to-exceed 25 years
- (2) 1% of FAS times years of service in excess of 25 years
- (3) RETIREMENT AGE FACTOR TABLE

Age Factor		Age	Factor			
55	1.000	61	1.140			
56	1.020	62	1.180			
57	1.040	63	1.220			
58	1.060	64	1.260			
59	1.080	65	1.300			
60	1.100	Add .01 for every				
		quarter a	after age 65.			

Deferred Retirement Option (DROP)

An employee who is age 55 with 5 years of service may DROP. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work up to maximum of 10 years.

Disability Retirement

Requirement: 10 years of service.

Benefit: 1.8 percent times FAS times years of service, if exceeds 1/3 of FAS; or

331/3%, or service retirement, if higher.

Death Before Retirement

Before eligible to retire for disability (less than 5 years):

- (1) One month's salary for each year of service, not-to-exceed six months.
- (2) Return of contributions with interest.

While eligible for service retirement: Fifty percent (50%) of service retirement benefit to eligible beneficiary.

With 5 or more years: Fifty percent (50%) of service retirement benefit formula at age 55, based on years of service at death.

Death After Retirement

Fifty percent (50%) of the member's allowance continued to eligible spouse for life.

Withdrawal of Benefits

If less than five years of service, return of contributions. If more than five years of service, right to have vested deferred retirement benefit oat normal retirement date.

MAJOR PROVISIONS OF THE RETIREMENT PLAN

Post Retirement Supplemental Benefit (PRSB)

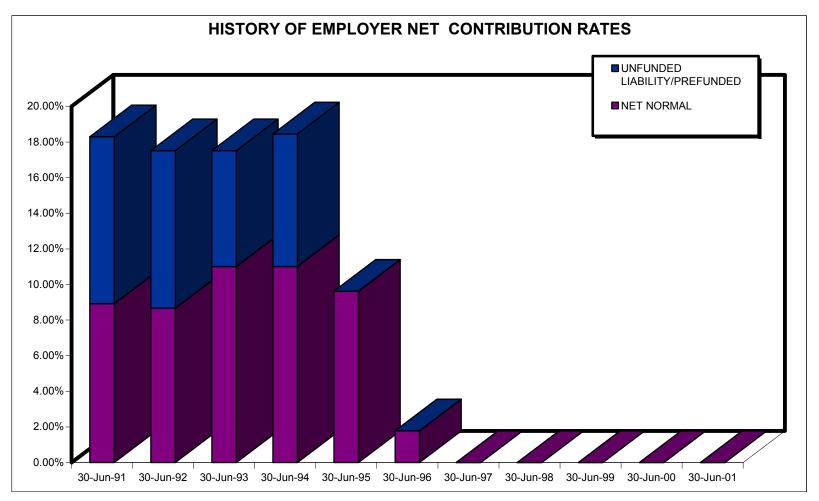
On August 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit (PRSB) Program which is intended to provide assistance to retirees to pay for various post-retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year and will begin in January.

Cost of Living Benefits

Based on the percentage change in Consumer Price Index (US city-average for urban wage earners and clerical works – all items), limited to a five percent (5%) maximum change per year each July 1.

Member Contribution Rates

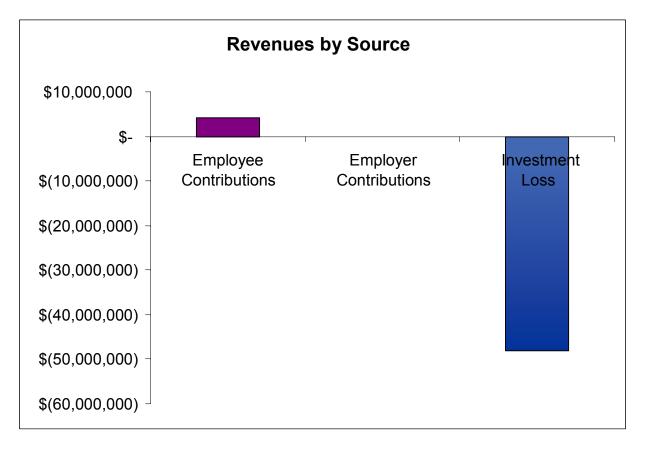
Basic rates on a formula reflecting the age at entry into the System. The rates are such as to provide an average annuity, at age 55, of 1/150 of FAS for each of the first 25 years of service, plus 1/300 of FAS for each year of service after 25. Member cost-of-living rates are designed to pay for one-half of the future cost-of-living increases.



VALUATION DATE	30-Jun-91	30-Jun-92	30-Jun-93	30-Jun-94	30-Jun-95	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01
NORMAL	8.91%	8.67%	11.01%	11.01%	9.62%	9.87%	10.33%	11.66%	11.51%	11.93%	11.97%
PREFUNDED LIABILITY	0.00%	0.00%	0.00%	0.00%	0.00%	-8.09%	-10.33%	-11.66%	-11.51%	-11.93%	-11.97%
NET NORMAL	8.91%	8.67%	11.01%	11.01%	9.62%	1.78%	0.00%	0.00%	0.00%	0.00%	0.00%
UNFUNDED LIABILITY/PREFUNDED	9.39%	8.85%	6.51%	7.45%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	18.30%	17.52%	17.52%	18.46%	9.62%	1.78%	0.00%	0.00%	0.00%	0.00%	0.00%







TEN-YEAR HISTORICAL TREND INFORMATION

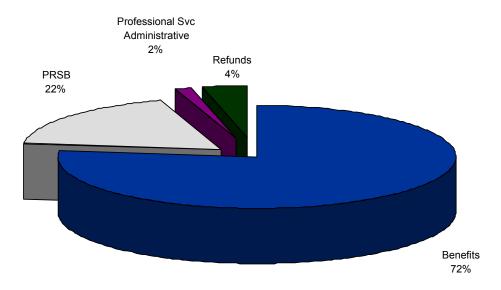
Ten-year historical trend information regarding revenues by source is as follows:

			Revenues by Source		
			Employer Contributions		
Fiscal	Employee	Employer	as a % of	Investment	
Year	Contributions	Contributions	Payroll	Income	Total
1993	\$ 5,812,638	\$ 11,598,223	17.52%	\$ 20,868,033	\$ 38,278,894
1994	6,050,138	96,162,463	154.55%	30,361,857	132,574,458
1995	6,599,283	6,175,899	10.37%	73,081,839	85,857,021
1996	5,620,616	9,025,790	13.87%	87,186,371	101,832,777
1997	5,996,364	5,770,958	8.35%	95,354,544	107,121,866
1998	4,690,254	920,707	1.32%	123,196,332	128,807,293
1999	3,456,573	-	0.00%	85,381,700	88,838,273
2000	3,823,878	-	0.00%	86,100,670	89,924,548
2001	3,990,823	-	0.00%	(43,180,024)	(39,189,201)
2002	\$ 4,192,384	\$ -	0.00%	\$ (48,167,786)	\$ (43,975,402)









TEN-YEAR HISTORICAL TREND INFORMATION

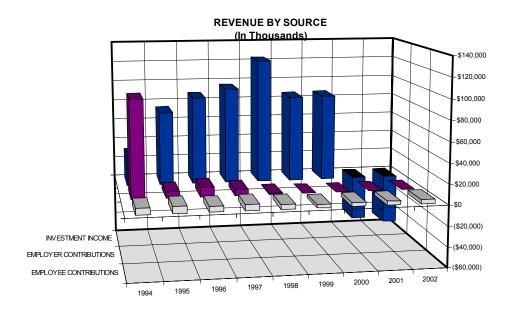
Ten-year historical trend information regarding expenses by type is as follows:

			Expenses by Type		
Fiscal Year	Benefits	PRSB	Professional Service Administrative Expenses	Refunds	Total
1993	\$ 11,666,778	\$ -	\$ 167,630	\$ 911,873	\$ 12,746,281
1994	12,523,182	-	120,035	1,347,579	13,990,796
1995	13,331,888	-	225,962	1,966,709	15,524,559
1996	14,353,364	-	352,488	1,812,893	16,518,745
1997	15,213,149	1	431,474	1,711,875	17,356,498
1998	16,142,881	-	361,185	974,915	17,478,981
1999	16,504,883	1,580,844	393,143	1,402,494	19,881,364
2000	17,798,960	3,823,898	446,712	1,013,385	23,082,955
2001	18,962,265	4,530,240	481,442	1,442,856	25,416,803
2002	21,268,831	6,545,190	486,445	1,349,011	29,649,477

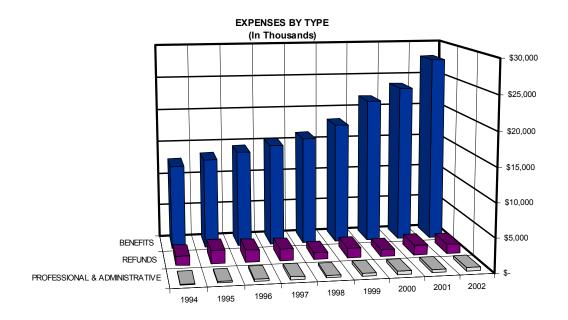
Note: In accordance with GASB 25 investment related expenses are netted against investment income and investments are reported at fair value instead of at cost.

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	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EMPLOYEE CONTRIBUTIONS	\$ 5,813	\$ 6,050	\$ 6,599	\$ 5,620	\$ 5,996	\$ 4,690	\$ 3,456	\$ 3,824	\$ 3,991	\$ 4,192
EMPLOYER CONTRIBUTIONS	11,598	96,162	6,176	9,025	5,771	921	-	-	-	-
INVESTMENT INCOME	20,868	30,362	73,082	87,186	95,355	123,196	85,382	86,101	(43,180)	(48,168)
TOTAL	\$ 38,279	\$ 132,574	\$ 85,857	\$ 101,831	\$ 107,122	\$ 125,001	\$ 88,838	\$ 89,925	\$ (39,189)	\$ (43,976)



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
PROFESSIONAL & ADMINISTRATIVE	\$ 168	\$ 120	\$ 226	\$ 352	\$ 431	\$ 361	\$ 393	\$ 447	\$ 481	\$ 486
REFUNDS	912	1,348	1,967	1,813	1,712	975	1,402	1,013	1,443	1,349
BENEFITS	11,667	12,523	13,332	14,353	15,213	16,143	18,086	21,623	23,493	27,814
TOTAL	\$ 12,747	\$ 13,991	\$ 15,525	\$ 16,518	\$ 17,356	\$ 17,479	\$ 19,881	\$ 23,083	\$ 25,417	\$ 29,649



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years of Credited Service										Fi	scal Year		
Retirement Effective Dates		5-10		10-15		15-20		20-25		25-30	30+			erage/Total Retirants
Period 7/1/01 to 6/30/02														
Average Monthly Benefit	\$	992	\$	1,886	\$	2,180	\$	2,543	\$	3,090	\$	4,284	\$	2,496
Average Final Average Salary		3,230		4,180		4,232		3,419		4,337		3,648		3,841
Number of Active Retirants		10		18		11		9		19		14		81
Period 7/1/00 to 6/30/01														
Average Monthly Benefit	\$	1,037	\$	1,505	\$	2,009	\$	2,358	\$	2,793	\$	3,302	\$	2,167
Average Final Average Salary		3,036		3,968		3,540		3,762		3,531		3,588		3,571
Number of Active Retirants		6		8		9		6		13		9		51
Period 7/1/99 to 6/30/00														
Average Monthly Benefit	\$	942	\$	1,606	\$	2,188	\$	2,313	\$	2,895	\$	2,806	\$	2,125
Average Final Average Salary		3,150		3,717		4,588		4,140		4,110		3,560		3,878
Number of Active Retirants		4		. 8		5		13		10		13		53
Period 7/1/98 to 6/30/99														
Average Monthly Benefit	\$	732	\$	877	\$	1,964	\$	1,382	\$	2,222	\$	2,273	\$	1,575
Average Final Average Salary		3.771		3,173		3.927		2.689		4.083		3.758		3.567
Number of Active Retirants		2		14		3		6		6		6		37
Period 7/1/97 to 6/30/98														
Average Monthly Benefit			\$	850	\$	966	\$	1.636	\$	2.215	\$	1.695	\$	1.472
Average Final Average Salary				3.029		2.761		3.319		4.078		2,890	l '	3,215
Number of Active Retirants				8		4		9		7		2		30
Period 7/1/96 to 6/30/97				-				_		•		_		
Average Monthly Benefit			\$	778	\$	1.186	\$	1.941	\$	3.390	\$	2.408	\$	1.941
Average Final Average Salary			•	2.468	•	2.859	•	2.066	•	5.384	•	3.951	1	3,346
Number of Active Retirants				4		5		1		4		6		20
Period 7/1/95 to 6/30/96														
Average Monthly Benefit	\$	394	\$	753	\$	1.214	\$	1.630	\$	1.618	\$	2.139	\$	1.291
Average Final Average Salary	•	2.288	·	2.789		2.856	·	3.218	·	3.044	·	3.525	l '	2,953
Number of Active Retirants		1		6		9		7		10		10		43
Period 7/1/94 to 6/30/95		-		-				•						
Average Monthly Benefit			\$	1.040	\$	840	\$	1.588	\$	1.808	\$	2.067	\$	1,469
Average Final Average Salary			•	3.450	•	2,255	•	3,492	•	3,278	•	3,285	1	3,152
Number of Active Retirants				7		7		8		5		2		29
Period 7/1/93 to 6/30/94				•		•		· ·		ŭ		_		
Average Monthly Benefit	\$	348	\$	1.105	\$	1.268	\$	1.677	\$	1.546	\$	1.887	\$	1.305
Average Final Average Salary	Ψ	2.797	Ψ	3.975	~	3.470	Ψ	3.483	Ψ	2.862	Ψ	2.678	ľ	3,211
Number of Active Retirants		2,707		8		5		7		6		3		31
		_		o		O		,		· ·		3		01



SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT JUNE 30, 2002

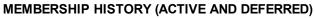
		Option Selected				
	Number of					
Type of Benefit	Recipients	Unmodified	Option 1	Option 2	Option 3	
Service Connected Disability	9	5	4	0	0	
Non-service Disability	135	96	30	7	2	
Ex-spouse Receiving Benefits from QDRO	20	20	0	0	0	
Service Retirements	737	360	286	57	34	
Spouses Receiving Continuances	163	129	22	12	0	
Total	1064	610	342	76	36	

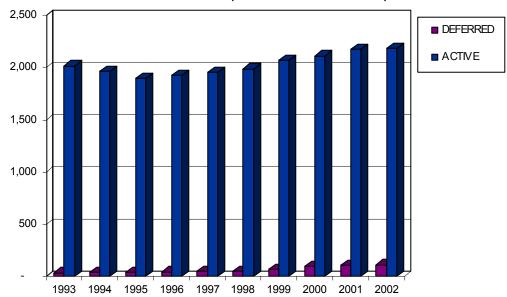
SCHEDULE OF BENEFIT EXPENSES BY TYPE JUNE 30, 2002

			Option Se	elect	ted		
Type of Benefit	Total	Unmodified	Option 1		Option 2	(Option 3
Service Connected Disability	\$ 167,706	\$ 111,953	\$ 47,389	\$	8,364	\$	-
Non-service Disability	1,964,442	1,416,850	390,089		108,796		48,707
Ex-spouse Receiving Benefits from QDRO	139,672	139,672	-		-		-
Service Retirements	15,865,283	7,768,433	6,096,703		1,143,716		856,431
Spouses Receiving Continuances	2,100,255	1,612,766	262,340		225,149		-
Total Benefit Expense *	\$ 20,237,358	\$ 11,049,674	\$ 6,796,521	\$	1,486,025	\$	905,138

^{*} Does not include DROP Distributions

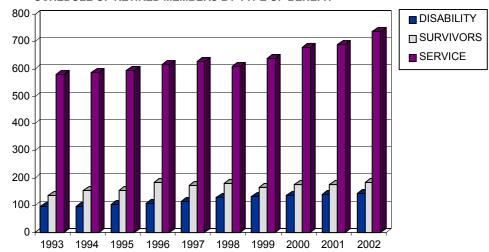






	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
DEFERRED	36	39	40	46	51	50	68	100	106	113
ACTIVE	2,016	1,966	1,893	1,927	1,953	1,988	2070	2112	2171	2186
TOTAL	2,052	2,005	1,933	1,973	2,004	2,038	2138	2212	2277	2299

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
DISABILITY	95	95	104	108	115	127	131	135	138	144
SURVIVORS	135	154	154	182	174	181	166	177	175	183
SERVICE	581	587	594	617	626	608	639	679	689	737
TOTAL	811	836	852	907	915	916	936	991	1002	1064



MEMBER CONTRIBUTION RATES

VALUATION DATE	EFFECTIVE			/ ACE
VALUATION DATE	DATE	20	BASIC AT ENTRY 25	30
JUNE 30, 2001	7/1/02 - 6/30/03	3.31%	3.91%	4.70%
JUNE 30, 2000	7/1/01 - 6/30/02	3.31%	3.91%	4.70%
JUNE 30, 1999	7/1/00 - 6/30/01	3.31%	3.91%	4.70%
JUNE 30, 1998	7/1/99 - 6/30/00	3.47%	4.06%	4.85%
JUNE 30, 1997	7/1/98 - 6/30/99	3.34%	3.91%	4.67%
JUNE 30, 1996	7/1/97 - 6/30/98	3.34%	3.91%	4.67%
JUNE 30, 1994	7/1/95 - 6/30/96	3.86%	3.95%	4.60%
JUNE 30, 1992	7/1/93 - 6/30/95	4.32%	4.86%	5.58%
JUNE 30, 1990	7/1/91 - 6/30/93	4.21%	4.74%	5.43%
JUNE 30, 1988	7/1/89 - 6/30/91	4.21%	4.74%	5.43%
JUNE 30 1985	7/1/86 - 6/30/89	4.62%	5.13%	5.81%
JUNE 30, 1982	7/1/84 - 6/30/86	4.62%	5.13%	5.81%
JUNE 30, 1979	4/16/80 - 6/30/84	4.23%	4.58%	5.21%
JUNE 30, 1976	7/01/77 - 4/15/80	3.85%	4.35%	5.04%

CITY CONTRIBUTION RATES

					PREFUNDED	
				TOTAL	ACTUARIAL	PAAL ADJUSTED
VALUATION	EFFECTIVE	CITY R	RATE	CITY	ACCRUED LIAB.	CONTRIBUTION
DATE	DATE	BASIC	COL	RATE	(PAAL)	RATES
JUNE 30, 2001	7/1/02 - 6/30/03	8.53%	3.44%	11.97%	-11.97%	0.00%
JUNE 30, 2000	7/1/01 - 6/30/02	8.49%	3.44%	11.93%	-11.93%	0.00%
JUNE 30, 1999	7/1/00 - 6/30/01	7.98%	3.53%	11.51%	-11.51%	0.00%
JUNE 30, 1998	7/1/99 - 6/30/00	8.09%	3.57%	11.66%	-11.66%	0.00%
JUNE 30, 1997	71/98 -6/30/99	6.83%	3.50%	10.33%	-9.01%	1.32%
JUNE 30, 1996	7/1/97 -6/30/98	6.41%	3.46%	9.87%	-8.09%	1.78%
JUNE 30, 1994	7/1/96 - 6/30/97	6.29%	3.33%	9.62%	0%	9.62%
JUNE 30, 1992	7/1/94 - 6/30/95	8.52%	10.88%	19.40%	0%	19.40%
JUNE 30, 1992	7/1/93 - 7/1/94	8.34%	10.12%	18.46%	0%	18.46%
JUNE 30, 1990	7/1/91 - 6/30/93	11.72%	5.80%	17.52%	0%	17.52%
JUNE 30, 1988	7/1/89 - 6/30/91	11.92%	6.38%	18.30%	0%	18.30%
JUNE 30, 1985	7/1/87 - 6/30/89	10.47%	8.63%	19.10%	0%	19.10%
JUNE 30, 1985	7/1/85 - 6/30/87	10.47%	6.84%	17.31%	0%	17.31%
JUNE 30, 1982	7/1/84 - 6/30/85	10.10%	8.14%	16.70%	0%	16.70%
JUNE 30, 1979	3/1/82 - 6/30/84	9.67%	6.36%	16.03%	0%	16.03%
JUNE 30, 1979	4/16/80 - 2/28/82	12.56%	6.84%	15.11%	0%	15.11%
JUNE 30, 1976	7/1/77 - 4/15/80	12.41%	2.55%	14.96%	0%	14.96%

Note: Due to surplus earnings in the System, a prefunded actuarial liability emerged as of the actuarial report dated June 30, 1996. The City's normal contributions have been actuarially offset by the prefunded actuarial accrued lliability.



SUMMARY OF ACTIVE PARTICIPANTS

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1988	1,600	\$ 37,321,719	\$ 23,326	0.00%
1989	1,752	44,520,591	25,411	8.94%
1990	1,868	50,822,514	27,207	7.07%
1991	1,879	52,133,387	27,745	1.98%
1992	1,879	62,422,933	33,221	19.74%
1993	2,016	66,199,898	32,837	-1.16%
1994	1,966	62,221,292	31,649	-3.62%
1995	1,893	63,613,482	33,605	6.18%
1996	1,927	65,084,621	33,828	0.66%
1997	1,953	69,115,258	35,389	4.62%
1998	1,988	69,986,473	35,204	-0.52%
1999	2,068	74,529,074	36,039	2.37%
2000	2,112	81,285,066	38,487	6.79%
2001	2,171	85,715,989	39,482	2.59%
2002	2,186	89,275,955	40,840	3.44%

SUMMARY OF RETIRED MEMBERSHIP

VEAD	AT END	ANNUAL BENEFITS TO	ANNUAL AVERAGE ALLOWANCE	NET CHANGE IN BENEFITS TO
YEAR	OF YEAR	PARTICIPANTS	(INDIVIDUAL)	PARTICIPANTS
1988	637	\$ 8,315,552	\$ 13,054	14.54%
1989	723	8,784,048	12,149	-6.93%
1990	751	9,324,265	12,416	2.19%
1991	749	10,015,617	13,372	7.70%
1992	784	10,741,680	13,701	2.46%
1993	811	11,621,551	14,330	4.59%
1994	836	12,437,981	14,878	3.82%
1995	852	13,252,179	15,554	4.54%
1996	907	14,353,364	15,825	1.74%
1997	915	15,213,149	16,626	6.89%
1998	916	16,142,881	17,623	6.00%
1999	936	18,085,727	19,322	9.64%
2000	991	21,622,858	21,819	12.92%
2001	1,002	23,492,505	23,446	7.45%
2002	1,064	27,814,021	26,141	11.50%

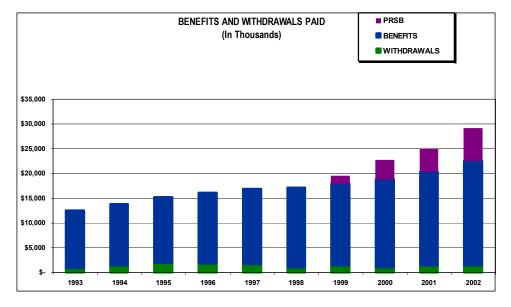


CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM ECONOMIC ASSUMPTIONS AND FUNDING METHOD

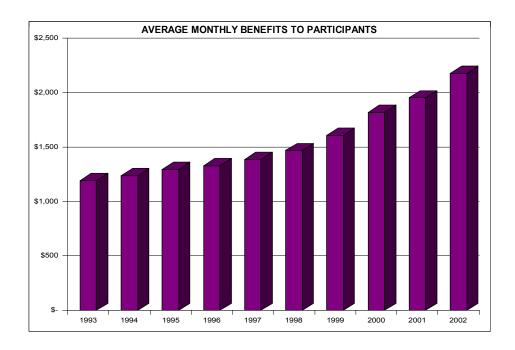
		1			
Valuation		Salary	Cost of	Inflation	Funding
Date	Interest	Scale	Living	Component	Method
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2000	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1999	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1998	8.25%	.30 - 8%	4.25%	4.75%	Projected Unit Credit
June 30, 1997	8.25%	.25 - 8%	5%	4.75%	Projected Unit Credit
June 30, 1996	8.25%	.25 - 8%	5%	4.5%	Projected Unit Credit
June 30, 1994	8%	.25 - 8%	5%	3 - 5%	Projected Unit Credit
June 30, 1992	8%	6%	5%	5%	Projected Unit Credit
June 30, 1990	8%	6%	5%	5%	Projected Unit Credit
June 30, 1988	8%	6%	5%	5%	Projected Unit Credit
June 30, 1985	7.50%	5-1/2%	4% - Active	4%	Projected Unit Credit
			5% - Retired		
June 30, 1982	7%	5-1/2%	4% - Active	4%	Projected Unit Credit
			5% - Retired		
Marples	8-1/2%	Merit +6%	5%	6%	Aggregate
June 30, 1979	6-1/2%	Merit 3-1/2%	3-1/2%	3-1/2%	Basic - Entry Age Normal
					COL - Attained Age Normal
June 30, 1976	6%	Merit +1%	5% with	1%	Basic - Entry Age Normal
			partial		COL - Attained Age Normal
			funding		
June 30, 1972	4-3/4	Merit Only	Not	None	Entry Age Normal
		,	recognized		

Source: Mercer Actuarial Valuation June 30, 2001



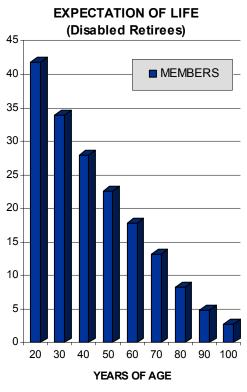


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
WITHDRAWALS	\$ 912	\$ 1,348	\$ 1,967	\$ 1,813	\$ 1,721	\$ 975	\$ 1,403	\$ 1,013	\$ 1,443	\$ 1,349
BENEFITS	11,667	12,523	13,332	14,353	15,213	16,143	16,505	17,799	18,963	21,269
PRSB	-	-	-	-	-	-	1,581	3,824	4,530	6,545

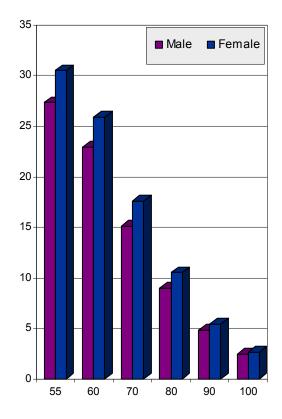


	1	993	19	994	1	1995	1996	Ì	1997	1998	 1999	2	2000	2	2001	2002
AVERAGE MONTHLY BENEFITS	\$	1,194	\$ 1	,240	\$	1,296	\$ 1,331	\$	1,386	\$ 1,469	\$ 1,610	\$	1,818	\$	1,954	\$ 2,178





EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Disabled Retirees 1981 Disability Table (x-3) for General Members									
	Age	MEMBERS							
	20	41.77							
	30	33.91							
	40	27.91							
	50	22.60							
	60	17.79							
	70	13.18							
	80	8.32							
	90	4.84							
	100	2.75							

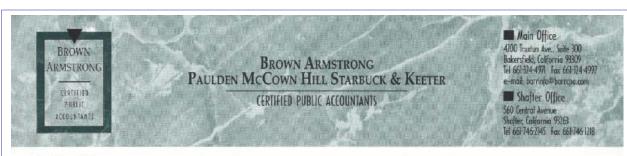
EXPECTATION OF LIFE Age and Service Retirees 1994 GAM Male (x-2) 1994 GAM Female (x-1)									
Age	Male	Female							
55	27.32	30.51							
60	22.92	25.91							
70	15.16	17.57							
80	80 9.02 10.53								
90	90 4.82 5.46								
100	2.50	2.70							

Source: Mercer Actuarial Valuation Report as of June 30, 2001



2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Independent Auditor's Internal Control Letter



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Amanda E. Wilson, CPA Sharon Iones, CPA, MST

Michelle L. Gonzales, CPA

MEKREHE L. GORZARS, C.P.

Rebecca Thomas, CPA

Wendy Yuan-Sway, CPA

Rosalva Flores, CPA

Bryan J. Lewis, CPA Debbie A. Rapp, CPA

Julie A. Auvil, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Retirement City of Fresno Employees' Retirement System Fresno, California

We have audited the basic financial statements of the City of Fresno Employees' Retirement System as of and for the year ended June 30, 2002, and have issued our report thereon dated August 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Fresno Employees' Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Fresno Employees' Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

MEMBER of SEC Practice Section of the American Institute of Certified Public Accountants



Independent Auditor's Internal Control Letter

This report is intended for the information of the management and the Board of Retirement. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement. BROWN ARMSTRONG PAULDEN McCOWN HILL STARBUCK & KEETER ACCOUNTANCY CORPORATION Bakersfield, California August 30, 2002